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DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2004

THURSDAY, MARCH 6, 2003

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:03 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond and Mikulski.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

STATEMENT OF MEL MARTINEZ, SECRETARY

ACCOMPANIED BY:

MICHAEL LIU, ASSISTANT SECRETARY, PUBLIC AND INDIAN HOUSING
KENNETH DONOHUE, INSPECTOR GENERAL
JOHN C. WEICHER, ASSISTANT SECRETARY, HOUSING, AND FEDERAL HOUSING COMMISSIONER
PHILIP MANGANO, EXECUTIVE DIRECTOR, INTERAGENCY COUNCIL ON HOMELESSNESS

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Good morning, Mr. Secretary. The hearing of the Senate VA–HUD Appropriations Subcommittee will come to order.

As we begin our hearings on the fiscal year 2004 requests, it is a pleasure to welcome Secretary Martinez and other guests from the Department of Housing and Urban Development who have joined us here this morning to testify on the President's fiscal year 2004 budget request. This is your third visit before the subcommittee on HUD's budget, Mr. Secretary, and I hope not the last.

As we have discussed, the Department remains a troubled agency plagued by a morass of program and management problems that, in most cases, you inherited from previous administrations. I think I warned you privately before you took it on that you were taking on a huge challenge and I know you have found it to be everything that I promised you it would be.

Your committed leadership and steady hand has made a big difference already, and continued stability at the top can only strengthen and enhance the reforms that have already occurred

within HUD. Please remember I said that, because there will be some comments I have later on that really point out some problems that you and I face together, and we have to resolve them because we want to see HUD be the kind of agency of which all of us can be proud.

The request for fiscal year 2004 proposes $31.3 billion, an increase of $872 million over the fiscal year 2003 funding level of $30.43 billion. As was the case with the fiscal year 2003, the Subcommittee will be facing some very difficult funding decisions in fiscal year 2004, including funding decisions for HUD. In addition, the tightness of the HUD budget request for fiscal year 2004 only makes these decisions more difficult, especially since, as always, we will have to stack up the funding by priorities of the many needs and priorities of many other agencies and programs within the jurisdiction of this Subcommittee, including such priorities as VA medical care, National Science Foundation, the Environmental Protection Agency and NASA, which itself faces a whole set of special needs as we attempt to understand what went horribly wrong with the reentry of the Space Shuttle Columbia.

In addition, HUD's fiscal year 2004 budget request is tied to a number of very ambitious legislative recommendations and program changes, which if enacted, and you and we know the likelihood of that, would represent a landmark restructuring of many of the Department's most important and largest programs. I will highlight a few of the most important and potentially controversial funding decisions and legislative recommendations.

First, the administration is proposing to restructure the various Section 8 programs by creating a new Section 8 tenant-based voucher program that would be called Housing Assistance for Needy Families, or HANF. HANF would be funded at about $12.5 billion in fiscal year 2004 and would transition to a block grant program of the States in fiscal year 2005. As part of this proposals, the Section 8 project-based programs would continue to be administered by HUD through State housing agencies and PHAs.

While I understand the administration's frustrations with the Section 8 tenant-based voucher program with its annual rescissions and poor cost projections, HANF does not appear to be the best possible replacement for the existing voucher program. Being a former governor and having been an advocate of block grants, I believe there are areas in which they can be very helpful, but instead we need to provide more flexibility in a low-income-housing program based on local decision making, I fear that HANF merely moves the responsibility for voucher administration to the States and otherwise appears to duplicate much of what the HOME program already is capable of doing. HANF likely will put new burdens on States and localities to meet rising housing costs as well as low-income housing needs. And as history tells us, block grant programs seldom receive any significant increased funding once the programs are established. I think that is particularly troubling during a period of time when most States and localities are facing increasingly difficult financial decisions and large budget shortfalls, and I find it unlikely that the States would be willing to pick up any of these responsibilities.

In summary, in my view, HANF is premature. The fiscal year 2003 appropriations bill created a new funding structure for Section 8 vouchers where PHAs receive the funding for all the vouchers in use and will be able to apply for any vouchers they need to help reach the PHA authorized level. This funding approach, we believe, if we worked it out in cooperation with my colleagues, this results in a more realistic assessment of Section 8 funding needs, reducing the need to go through the annual ritual of rescinding large amounts of unused excess Section 8 assistance. And as we all know, that becomes a piggy bank which gets raided not for use in the HUD budget but for everything else under the sun, and I think it is going to take several years for us to see if this new system will work, but I am optimistic that it is a better solution and will give us a better gauge of both the actual cost and the use of vouchers.

As for public housing, the HUD budget request of $3.57 billion for the Public Housing Operating Fund is roughly the same as the fiscal year 2003 funding. The HUD budget request of $2.6 billion for the Public Housing Capital Fund is some $70 million less than the fiscal year 2003 level. I compliment Mr. Liu, the Assistant Secretary for Public and Indian Housing, on taking much needed corrective measures when it was discovered that the Department has been inappropriately awarding PHAs with additional operating funds by raiding current year public housing operating funds for prior year obligations. The fiscal year 2003 appropriations bill put a final stop to this activity while funding for at least one last time the existing prior year obligations owed to a few PHAs for fiscal year 2003. While not a perfect solution, I believe it is a fair solution and should leave all PHAs on an equal footing. I never ever want to see this problem again.

I am also troubled by the Department's decision to eliminate all funding for the public housing HOPE VI program. I want to give you some history with that HOPE VI program. It started in the authorizing committee when we finally committed to tear down the very troubled almost uninhabitable public housing in St. Louis, and replace it with a model public housing program. Working through this Subcommittee we designed the HOPE VI program to carry on with tearing down the most distressed and obsolete public housing, while replacing the housing with new mixed income and public housing developments. This not only provides good housing for low-income families, but helps to anchor the economic and fiscal redevelopment of many distressed communities. Frankly, despite the fact that HOPE VI had problems at its inception, I think it is a program that works.

The loss of this $574 million HOPE VI program is particularly disturbing to me because there has never been any real attempt to have a meaningful dialogue between the administration and the Congress on the future of HOPE VI. We have asked and asked, and we have received no discussion, no dialogue, which puzzles me, why the administration has failed to discuss the various options related to HOPE VI, eliminating the program, continuing it, improving it, or creating a substitute program.

No matter how one views the HOPE VI program, the loss of $574 million will mean a huge reduction in available resources, both

public and private, for public housing capital needs. This is a critical concern since HUD has identified some $20 billion and more in deferred maintenance and capital needs. These issues are further compounded by the loss of funding associated with the elimination of the Public Housing Drug Elimination program in fiscal year 2002.

Now I know the administration is proposing a new public housing loan guarantee program that could possibly meet some or many of the goals of the HOPE VI program. We need to know more about the program, especially its goals and its projected impact. I am concerned that the $131 million price tag for the credit subsidy for this new loan guarantee program is paid for from the public housing capital fund, further eroding needed funds for capital and deferred maintenance needs.

Many of these policy and funding decisions under this budget request further underline the need for a housing production program with many extremely low-income families who are unable to find affordable housing, and we are willing to continue to work to find such a program and the funding for it. We would welcome the opportunity to have input from your Department and we look forward to working on this question in a bipartisan basis to come up with a program that meets the needs.

There are many proposals out there, most of which chase the elusive phantoms, and they are not the magic pixie dust that is going to allow us to avoid the Budget Act if we try to raid that money for a new housing production program.

The HUD budget also calls for consolidating the Homeless Assistance Grants, as well as a revised formula for the Community Development Block Grant program. I have supported the block granting of homeless assistance for many years, so long as the legislation insures that HUD accountability and oversight are part of the process. A new formula for the CDBG program that better targets poor and distressed communities is a laudable goal. Nevertheless, part of the success of the CDBG program is that it is a national program that can reach all of our communities, and that all of the communities have a stake in the program. Also, I would hate to see that many of the good ideas in the HUD budget being lost because of the distraction of a food fight over the formula by which the CDBG program allocates funding.

There is also a number of other HUD propositions that merit discussion but in the interest of time, I am only going to focus on a few more.

The administration has proposed $50 million for what is called the Samaritan Housing Initiative. The program is designed as a broad interagency strategy to address homelessness, involving HUD, HHS and VA and is consistent with a 2-year innovative demonstration included in the VA–HUD fiscal year 2003 appropriations bill. The administration is also proposing $25 million for a lead-based paint abatement program. Again, this proposal is basically consistent with the new $50 million lead paint abatement program that was included in the fiscal year 2003 bill. I am very gratified by these common priorities, but I am going to match these programs and raise them.

The proposed FHA home ownership program for persons with poor credit is also a good idea. This proposal would allow these persons an opportunity to repair their credit and demonstrate their financial reliability while providing an opportunity for home ownership. All too often, low-income persons make financial mistakes while young and without resources. Unfortunately, these persons are often haunted by these mistakes and are unable to obtain housing and other credit as they mature and become more financially responsible. This is the type of program where the Federal Government can make a difference and provide a second chance opportunity to make home ownership a reality.

I am unhappy about a number of HUD funding recommendations for fiscal year 2004. Most especially, I am unhappy that the administration continues in every HUD budget request to recommend eliminating the Rural Housing and Economic Development Program. I guess nobody listens to us up there. Urban areas always get the attention of Congress while rural areas too often are ignored and underfunded. I live in a rural area where the housing needs are very strong, and I trust you will find it in other States as well. It has been estimated that over the last 2 fiscal years, some 4,000 jobs have been created and over 8,200 persons have been trained. In addition, over 2,200 housing units have been constructed with some 3,700 rehabilitated. In the last year, 367 businesses have been created and 1,400 existing businesses assisted. This program is a good program. It makes a difference with a small price tag and big results.

I also feel compelled to reiterate that HUD faces many challenges and there is much more work to be done. As I have discussed already, the Department has been misleading Congress for some 10 years by overpaying PHAs for their operating costs from current year funding for prior year obligations. I understand this problem has been corrected and I expect it has been.

However, equally or more serious, at the very end of the conference on the fiscal year 2003 appropriations bill, the House and Senate VA–HUD Appropriations Subcommittees were advised that HUD exceeded its stated employee levels by upwards of 300 FTEs, with a cost of $30 million that was not reflected in the HUD fiscal year 2003 budget justification and budget request. These hires occurred during the spring and summer of 2002 and despite the significant impact on HUD's budget needs for fiscal year 2003, HUD never once made any attempt to inform the Congress of its decision to hire significantly more staff than provided for in the HUD fiscal year 2003 budget justifications. In addition, HUD only reported these staff increases when it determined that the fiscal year 2003 budget request for salaries and expenses could not support the added staff.

In addition, there are many significant questions as to whether HUD comported with existing staffing requirements and hiring procedures, including requirements consistent with HUD's resource estimation and allocation process or REAP. In fact, it appears that some HUD offices hired significantly more staff than needed while other offices hired significantly less. It is unclear whether there was top level management controls or any adult supervision during this hiring spree. HUD and the responsible officials will be held ac-

countable for this mess. In any case, a $30 million funding shortfall as well as HUD's failure to provide timely notice of the problem is unacceptable.

The reform of HUD remains a huge and daunting challenge. It has been troubled and dysfunctional, but we believe it serves a critical role, and so we will continue to work together to rebuild the public confidence in HUD as it performs its many housing and community development needs.

Mr. Secretary, I look forward to your testimony, and I now turn to my ranking member, Senator Mikulski.

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Mr. Chairman, the public has been waiting with bated breath to not only talk to Secretary Martinez, but also to wish you happy birthday. On behalf of the Subcommittee and myself I am glad your birthday comes before mine. I know today is your birthday and we want to wish you well.

This is a bipartisan, low-fat muffin, and I want to present it to you.

This is in no way to indicate that an adequate appropriation is to let them eat muffins. We really do wish you good health.

Senator BOND. Thank you.

Senator MIKULSKI. I want to welcome Secretary Martinez, and in the interest of time, I will summarize my opening statement.

For fiscal year 2004, the administration's request, which is a $300 million increase over last year, is only 1 percent. That indeed, I think is too skimpy to be able to meet the compelling needs facing us in the area of housing.

My primary principle for HUD is absolutely simple. I believe that HUD needs to be in the community development business and not think of itself as just being in the building business. I think that HUD needs to be able to build communities, not only houses, communities where people can live, work, worship and shop, to strengthen communities, whether in small town U.S.A. or big town America.

And I know, Mr. Secretary, you share my principles that these homes not only need to be affordable, but the neighborhoods have to be safe, and that whatever the Federal Government does, we protect both the taxpayer and the consumer against fraud.

Looking at what we need to do in terms of neighborhood and community development, I wanted to first focus my comments on HOPE VI. The administration has zeroed out HOPE VI at the end of this year. This means that there is going to be $600 million cut out of community development. HOPE VI was not about building new housing for the poor, it was about building new opportunities for the poor. It was about using typical architecture, tearing down decrepit housing, and at the same time using a new empowerment architecture, insisting that the residents be involved in both the stake in the community as well as in job training, since public housing should be seen not only as a way of life but a way to a better life.

We would hope as the loans have been zeroed out, we take a look at this because the administration does not provide continued funding for the program, or even suggest how to improve HOPE VI by

simply eliminating it or taking $600 million out of the people development program and out of the community development. I think we need a vigorous conversation about HOPE VI and I will be asking you some questions about it.

It is a program that needs to be reformed or if it is not going to stay as HOPE VI, we need to then think about how else we can create hope. Remember, it is not about housing, it is about opportunity.

The other issue that I am concerned about is brownfields. Brownfields were eliminated from the budget request last year. With brownfields, the cleanup responsibility lies with EPA, but part of the economic development responsibility lies with HUD. In my own home State of Maryland and in the Baltimore metropolitan area, a study done for the Maryland Port Authority showed that we have 3,000 acres of brownfields in and around the Baltimore waterfront, in Baltimore City and east Baltimore County.

What a cornucopia of opportunity to turn brownfields into green fields, not only from the environmental standpoint, but a tremendous opportunity to create new jobs, new places for work, and even new housing. Let us take a look at these brownfields and let us work with Administrator Whitman to look at not only large communities, but in others that we could do this.

Third, we need to look at the funding and attitudes related to housing for the elderly. Most of the housing for the elderly was built in the 1970's and 1980's. It is old. We have many, many units that were built in the 1960's to the 1980's. We now have elderly who are now frail elderly, and the buildings themselves are getting decrepit. We need to look at this and how they are going to renew those buildings, and also look at the way the elderly have been aging in place at something called the naturally occurring retirement communities.

Let us take a look at how with the boomers coming on line, what are we going to be able to do about this, and I think we have to have a commitment to what we offer the elderly. And Mr. Martinez, this could be a successful faith-based program, and I believe it has been, because it has been a partnership between the Federal Government with Catholic charities, Jewish charities, other faith-based organizations. I just think this is a great opportunity to continue the faith-based initiative and yet at the same time look at both the housing and the people who are aging in place.

The other area that I appreciate your work on is fraud. I know you share with me the total frustration and outrage when people try to scam the consumer and scam the taxpayer. I want to salute you for what you have been doing in the area of fraud. Your approach in trying to deal with the scams and schemes in settlement costs for home ownership I think should be absolutely commended, because when people buy their home, they are looking at not only the price of the home, but also the price of the settlement, and often there are those hidden fees that really do gouge that home buyer, particularly that first-time home buyer. So kudos to you for that.

Second, I want to thank you for your work against predatory lending. The way you have worked with both me in Baltimore City and this Committee with Senator Bond to make sure that when we

have FHA mortgage, we are able to provide first-time home ownership, that we were not using them to gouge people by selling them houses that were bought at $15,000 and sold 72 hours later for $85,000, with balloon payments of $100,000. So, congratulations.

But you know, the schemers and the scammers are really scummers. Wherever you go, they think of something new. We had a new situation in Baltimore, and you wonder why is it in Baltimore, because we are pretty tough. But we now have a new situation where a company is buying up mortgages, and in the process of buying up these mortgages, what they are doing is essentially telling, foreclosing people who are making payments.

There was an investigative report revealed on local Baltimore TV about this corporation sending false letters to home buyers telling them they were delinquent in their loan, that they were going to foreclose, scaring the heck out of home buyers, actually moving to foreclosure, and creating chaos in their minds, chaos in the marketplace.

This company provides customer service but they are not the lender. The Community Law Center in Baltimore has gotten 90 complaints from people being scammed by this corporation. We do not know whether any of these loans have FHA insurance on them, but they are approved as an FHA partner. I am going to give you more information about this. I want to discuss this with the Inspector General, because we want to know who is this company and what are they doing. How can we stop the fraud? If someone has been a victim, where can they go? We want to get at the system of the fraud, and we want to help the local consumer that has been once again, schemed and scammed, and get to the bottom of it. And I know your deep commitment on this, and I say thank you.

Money is in short supply in the Federal Government, in the Federal checkbook and it is in shorter supply in the family checkbook, and we have to stand firmly against any fraud scheme, scam or scum. I am prepared now to hear your testimony.

Mr. Chairman, thank you very much.

PREPARED STATEMENT OF SENATOR PATRICK J. LEAHY

Senator BOND. Senator Leahy has submitted testimony which he would like submitted for the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATRICK J. LEAHY

Mr. Secretary thank you for taking the time to come and testify before us today, as always it is a pleasure to have you before the VA–HUD and Independent Agencies Subcommittee.

Last year was a long and trying one where Federal appropriations were concerned. We had not yet finished our work on the fiscal year 2003 bills when the President's proposal for fiscal year 2004 was delivered to Capitol Hill.

I know that both Senator Bond and Senator Mikulski worked very hard to produce VA–HUD appropriations bill for fiscal year 2003 that met the needs of our Nation's most vulnerable populations and for that I thank them. They made the best of a very difficult situation.

In the end however under an artificially low spending cap imposed by the administration it was difficult to adequately fund many important domestic programs. I am concerned that if we follow up on this fiscal year with the meager budget proposed by the administration—by most calculations it amounts to a mere 1.3 percent increase for HUD programs—we would only entrench this country's affordable housing crisis.

Mr. Secretary, this administration has talked at length about the importance of housing and homeownership in creating stability and promoting wealth—but this budget does not reflect those sentiments.

The administration's proposal to block grant Section 8 voucher assistance to States is particularly troubling. This program serves over 5 million low-income families who rely on the rental assistance to help maintain stable housing. One preliminary study of this policy estimates that over 137,000 vouchers could go out of circulation if this proposal is implemented.

Most troubling is that the proposal to block grant is made in the wake of the bipartisan Millennium Housing Commission report that found the voucher program to be successful in its mission and at a time when voucher utilizations rates are going up.

I doubt there is anyone on this Subcommittee who would argue that the Section 8 program does not have its flaws, and I am not averse to looking at new ways to make the system more efficient; however we simply do not have enough details to thoroughly evaluate this proposal. I look forward to seeing more details as soon as possible.

For the third year in a row, the administration also proposes severe cuts to public housing. By most estimates the President has proposed over $2.5 billion in cuts to public housing over the last 3 years.

The Public Housing Capital Expenses program is recommended at $200 million less then fiscal year 2002, and the administration suggests we eliminate the HOPE VI program that has helped many communities around the Nation revitalize.

Last year by HUD's own miscalculations there was a $250 million dollar shortfall in the Public Housing Operating Fund—a shortfall HUD must make up by borrowing from the fiscal year 2003 allocation. Yet the administration proposes only a $44 million increase for this fund from the fiscal year 2002 level, leaving many of us to wonder how HUD will make up the difference.

Mr. Secretary, it is one thing to argue the merits of expanding programs in this economic environment, but shouldn't at least live up to our current obligations?

This budget does not do that.

There is no question that we are facing an affordable housing crisis in this Nation. Nearly 5 million households in the United States are paying over half of their incomes to rent alone—leaving precious little to put groceries on the table, gas in their cars, or buy clothes for their kids.

My home State of Vermont has not been immune to this trend. The number of homeless families being served by homeless shelters in Chittenden County has risen 400 percent over the last 3 years. Many of these families are working families.

It is in this light that I am troubled by the priorities set forth in the administration's proposed budget for the Department of Housing and Urban Development.

Mr. Secretary, I know you did not take on an easy task when you came on board at this Department, and I look forward to working with you throughout the year to address these concerns.

Again, I thank you for coming before us today; I have some additional questions that I will submit for the record.

Senator BOND. Thank you, Senator Mikulski. We are supposed to have a vote coming up, but I think we will try to move along. We will go to your testimony and try to get it in before we have to go to vote.

STATEMENT OF MEL MARTINEZ

Secretary MARTINEZ. Mr. Chairman, in the interest of time what I would like to do is just offer my full remarks for the record.

Senator BOND. We will be happy to include them.

Secretary MARTINEZ. And rather than go through more prepared remarks, perhaps what I could do is just try to go through some of the things that I know are of interest to the Chairman and the Ranking Member.

Senator BOND. Please.

Secretary MARTINEZ. First of all, let me say to both of you that it is a real pleasure to come before you, and it is a real pleasure to meet with you as your commitment and concern with this Department and its work, show by your depth and breadth of knowl-

edge of our programs and your interest in what we do. That is gratifying and I understand, Mr. Chairman, that at times with that level of interest and knowledge also comes a little bit of scolding, and I am prepared for that today as well, because I do understand that from time to time this Department, as you well foretold for me at the time of my arrival in this city, can be a little daunting. So we will be prepared to discuss some of those issues with you as well.

PROMOTING HOME OWNERSHIP

Let me say that our Department continues to focus on the issue of home ownership with our $31.3 billion budget, but we obviously have some things that are very important to us to move American families into home ownership. The American Dream Downpayment Initiative contributing $200 million into the HOME program is the cornerstone of that.

Related to the issue of predatory lending or fraud abuse, and frankly of providing families with, as you so well said, Madam Senator, is not a way of life but a way to a better life. We also believe that home ownership provides that way to a better life, and so home ownership education is a big component of this budget. We have made a continuing commitment to increasing funding in that. In this year's budget, $45 million is dedicated to home ownership counseling and education.

But we hope to bring families from our minority communities into home ownership and teach them skills to avoid predatory lenders, how to avoid bad credit, how to fix that credit, how to approach the whole home buying process is important.

As you pointed out again, I am working on the issue of reform, we are proud of that commitment and we continue to look for that to occur in the late spring or early summer.

In addition to that, we are continuing to promote housing Section 8 vouchers for home ownership.

HOME PROGRAM

All of these we believe to be significant and important commitments. In the HOME program, which we believe to be a real hallmark for providing affordable opportunities for housing for many families, we, this year, are very proud of the President's commitment to this aspect of our work. The increase of 5 percent, $113 million devoted to the HOME program, will enable us with the additional funds that have been committed by the Congress over many years of over $2 billion yearly, to produce over 1 million units of housing over the next 10 years.

We believe that is a very substantial production program that will help us to continue in two veins. Number one, not add any more rent programs and number two, not raid and lose the money which is frankly, no more than the insurance reserve fund, in order to provide about an equal number of homes. So, I believe that is the right way to go.

HANF

I am willing to engage in vigorous debate over our block granting of Section 8. I do think it is important to look at this proposal as a possible way to avoid some of the pitfalls of Section 8 in the past. I would point out to the Chair that it is a flexible program where States who might not be in a position to undertake it, it could still be managed in the traditional way that we have done it in the past. But it would open a window of opportunity for those States who would be in a position to manage it, and perhaps do so in a way that is more direct and close to the people and perhaps in a more efficient way that would avoid the problem of recapture that you so aptly pointed out in your remarks, Mr. Chairman.

HOPE VI

The issue of HOPE VI is one that I find painful to have it appear as something that we are not committed to. I believe HOPE VI has been a very successful and good program. I believe that while it has done a great deal that much of its promise remains unfulfilled.

One of the things I would like to point is out is the commitment of HOPE VI over the last 10 years, and it is a 10-year program, and OMB felt that it was a program for 10 years, this being the 10th year, and coming up for reauthorization that we should take a pause and look. The reason for that also is that while we have funded over 165 programs or projects, only 14 have been completed to date. So when I say that the promise remains largely unfulfilled, that is because $2.5 billion that have already been awarded have not come out of the ground yet.

In addition to that, the round of grants from this year, which we should be announcing, as well as the ones from next year, would add an additional billion dollars in grant monies that would be out.

I am not being critical of those who put these deals together. They are complicated and by the nature of the deal, they leverage funds with the private sector. So they are very good deals and they do take time to come together. But I would like to just point to a chart that we prepared that would give you a graphic visual of exactly where the program is in terms of the spend-out.

As you can see, we have the number of units that have been planned or funded, and on the right in the red you see the number of units that have been completed through today. But in the reinvention of the future of HOPE VI, we could look to a program that is going to be continuing, that is not going to end. I will clarify for you that those projects that have received the grant will continue to see that grant paid out and their projects will all be done. So no one who was expecting to do a HOPE VI because they received a HOPE VI grant will be disappointed, and any who are still hoping to do one can still enter the next round of funding.

We are also excited, Mr. Chairman, about utilizing the private resources and private capital to attract private capital. Some cities like Chicago are committing hundreds of millions of dollars of their own money to revitalize public housing neighborhoods, and HUD is also seeking additional approval of Congress such as the Public Housing Reinvestment Initiative.

So we look forward to continuing the discussion with you. Senator Mikulski mentioned the possibility of a task force; I think that would be helpful. I believe that in coming together with those who have had an interest or stake in the past, who have offered possibilities, who have dealt with some of the problems of displacement of the people and things of that nature, would also come up with good solutions for us on that issue.

MANAGEMENT ISSUES

With respect to the issue of management issues of HUD, Mr. Chairman, I will say to you first and foremost and from the top, that the buck stops here. You made me well aware of what I was taking on and I realize that.

And with respect to the hiring issues that have arisen, I am the person responsible. I am though, and I assure you, Mr. Chairman, that I am going to be looking into the details of how the hiring problems occurred. We are taking steps to ensure that no such lack of coordination at the top takes place in what traditionally has been a problem since we have traditionally been undermanned and that has impacted our program performance.

What we did this year was to try and employ a number of means to reach our staffing levels. What we did is we overdid it, and it lacked a certain top control that we clearly recognize was a mistake, and that we already have and continue to look to correcting that deficiency in our management. But we do know that all the hires were from the critical hire list, so we are hiring people that needed to be there to perform an important function for HUD.

I will be happy to answer more questions in detail on that issue, but I did want to let you know of my deep concern for it and my great commitment not only to this but other areas of management, to ensure that HUD does not continue to be a troubled agency.

PREPARED STATEMENT

Mr. Chairman, with that, I think I will just assure you of my continued desire to work with the Committee and to look forward to doing so as we go through this next budget cycle, and look forward to answering your questions.

[The statement follows:]

PREPARED STATEMENT OF MEL MARTINEZ

OVERVIEW

Chairman Bond, Ranking Member Mikulski, Distinguished Members of the Committee: Thank you for the invitation to join you this morning. I am honored to outline the Fiscal Year 2004 Budget proposed by President Bush for the U.S. Department of Housing and Urban Development (HUD).

HUD has achieved measurable success since 2001 in carrying out its mission and meeting the many challenges confronting a Cabinet-level Department. Today, HUD annually subsidizes housing costs for approximately 4.5 million low-income households through rental assistance, grants, and loans. It helps revitalize over 4,000 localities through community development programs. The Department provides housing and services to help homeless families and individuals become self-sufficient. HUD also encourages homeownership by providing mortgage insurance for more than 6 million homeowners, many of whom would not otherwise qualify for loans.

Supported by HUD's proposed $31.3 billion fiscal year 2004 budget, this important work will continue. Housing remains a critical component of both the President's

plan to promote economic growth and his focus on meeting the common challenges faced by Americans and their communities.

The President does not intend to change his 2004 Budget based on the program or agency levels included in the 2003 Omnibus bill the Congress adopted in mid-February. The President's 2004 Budget was developed within a framework that set a proposed total for discretionary spending in 2004, and each agency and program request reflected the administration's relative priority for that operation within that total. While we recognize that Congress may believe there is a need to reorder and adjust some of these priorities, the administration intends to work with Congress to stay within the 2004 overall amount.

HUD's proposed budget offers new opportunities for families and individuals—and minorities in particular—seeking the American Dream of homeownership.

It offers new opportunities for renters by expanding access to affordable housing free from discrimination.

It provides new opportunities for strengthening communities and generating renewal, growth, and prosperity—with a special focus on ending chronic homelessness.

And our budget creates new opportunities to improve HUD's performance by addressing the internal management issues that have long plagued the Department.

INCREASING HOMEOWNERSHIP OPPORTUNITIES

Americans place a high value on homeownership because its benefits for families, communities, and the Nation as a whole are so profound.

Homeownership creates community stakeholders who tend to be active in charities and churches. Homeownership inspires civic responsibility, and owners vote and get involved with local issues. Homeownership offers children a stable living environment that influences their personal development in many positive, measurable ways—at home and in school.

Homeownership's potential to create wealth is impressive, too. For the vast majority of families, the purchase of a home represents the path to prosperity. A home is the largest purchase most Americans will ever make—a tangible asset that builds equity, credit health, borrowing power, and overall wealth.

Due in part to a robust housing economy and Bush Administration budget initiatives focused on promoting homeownership, more Americans were homeowners in 2002 than at any time in this Nation's history. The national homeownership rate is 68 percent. That statistic, however, masks a deep "homeownership gap" between non-Hispanic whites and minorities: while the homeownership rate for non-Hispanic whites is nearly 75 percent, it is less than 50 percent for African-Americans and Hispanics.

The administration is focused on giving more Americans the opportunity to own their own homes, especially minority families who have been shut out in the past. In June 2002, President Bush announced an aggressive homeownership agenda to increase the number of minority homeowners by at least 5.5 million by the end of this decade. The administration's homeownership agenda is dismantling the barriers to homeownership by providing down payment assistance, increasing the supply of affordable homes, increasing support for homeownership education programs, and simplifying the homebuying process.

Through "America's Homeownership Challenge," the President called on the real estate and mortgage finance industries to take concrete steps to tear down the barriers to homeownership that minority families face. In response, HUD created the Blueprint for the American Dream Partnership, an unprecedented public/private initiative that harnesses the resources of the Federal Government with those of the housing industry to accomplish the President's goal.

Additionally, HUD is proposing several new or expanded initiatives in fiscal year 2004 to continue the increase in overall homeownership while targeting assistance to improve minority homeowner rates.

As a first step, HUD proposes to fund the American Dream Downpayment Initiative at $200 million. First introduced in fiscal year 2002, this program targets funding under the HOME program specifically to low-income families wanting to purchase a home. The fiscal year 2003 appropriations provided for $75 million for this initiative, which will be sufficient to begin the program. The fiscal year 2004 budget provides funding to assist approximately 40,000 low-income families with down payment and closing costs on their homes.

The HOME Investment Partnerships Program (HOME) plays a key role in addressing the shortage of affordable housing in America. As reflected in this year's program assessment, the HOME program is successful because it is well managed and its flexibility ensures local decision-making. In 2004, a total of $2.197 billion is being provided to participating jurisdictions (States, units of local government,

and consortia) to expand affordable housing, which represents a 10 percent, or $200 million, increase for HOME from the 2003 enacted level. The funds dedicated to expanding and improving homeownership will be spent rehabilitating owner-occupied buildings and providing assistance to new homebuyers. Based on historical trends, 36 percent of the homeownership-related funds will be used for new construction, 47 percent for rehabilitation, and 14 percent for acquisition.

Recipients of HOME funds have substantial discretion to determine how the funds are spent. HOME funds can be used to expand access to homeownership by subsidizing down payment and closing costs, as well as the costs of acquisition, rehabilitation, and new construction. To date, HOME grantees have committed funds to provide homebuyer assistance to more than 288,000 low-income households.

To promote the production of affordable single-family homes in areas where such housing is scarce, the administration is proposing a tax credit of up to 50 percent of the cost of constructing a new home or rehabilitating an existing home. This new tax credit targets low-income individuals and families; eligible homebuyers would have incomes of not more than 80 percent of their area median.

HUD is committed to helping families understand the homebuying process and how to avoid the abuses of predatory lending. Housing counseling has proven to be an extremely important element in both the purchase of a home and in helping homeowners keep their homes in times of financial stress. The fiscal year 2004 budget will expand funds for counseling services from $40 million in fiscal year 2003 to $45 million. This will provide 550,000 families with home purchase and homeownership counseling and about 250,000 families with rental counseling.

The fiscal year 2004 budget strengthens HUD's commitment to the Self-Help Homeownership Opportunity Program (SHOP). SHOP provides grants to national and regional non-profit organizations to subsidize the costs of land acquisition and infrastructure improvements. Homebuyers must contribute significant amounts of sweat equity or volunteer labor to the construction or rehabilitation of the property. The fiscal year 2004 budget request for $65 million triples the funding received in 2002, reflecting President Bush's commitment to self-help housing organizations such as Habitat for Humanity. These funds will help produce approximately 5,200 new homes nationwide for very low-income families. Funds are provided as a set-aside within the Community Development Block Grant account.

The Federal Housing administration (FHA) is the Federal Government's single largest program to extend access to homeownership to individuals and families who lack the savings, credit history, or income to qualify for a conventional mortgage. In 2002, FHA insured $150 billion in mortgages for almost 1.3 million households, most of them first-time homebuyers, which represents a 21 percent increase over the previous year. Thirty-six percent were minority households.

FHA offers a wide variety of insurance products, the largest being single-family mortgage insurance products. FHA insures single-family homes, home rehabilitation loans, condominium loans, energy efficiency loans, and reverse mortgages for elderly individuals. Special discounts are available to teachers and police officers who purchase homes that have been defaulted to HUD and who promise to live in their homes in revitalized areas.

HUD is proposing legislation for a new mortgage product to offer FHA insurance to families that, due to poor credit, would either be served by the private market at a higher cost or not at all. It is anticipated that borrowers will be offered FHA loan insurance under this new initiative that will allow them to maintain their home or to purchase a new home. The new Mutual Mortgage Insurance Fund (MMI) mortgage loan program is expected to generate an additional $7.5 billion in endorsements for 62,000 additional homes.

Through its mortgage-backed securities program, Ginnie Mae helps to ensure that mortgage funds are available for low- and moderate-income families served by FHA and other government programs such as VA and the Rural Housing Service of the U.S. Department of Agriculture.

During fiscal year 2002, Ginnie Mae surpassed a total of $2 trillion in mortgage-backed securities issued since 1970. Reaching this milestone means that more than 28.4 million families have had access to affordable housing or lower mortgage costs since Ginnie Mae's inception. HUD is proud of Ginnie Mae's accomplishments and its important role in helping to support affordable homeownership for low- and moderate-income families in America. HUD's role in the secondary mortgage market provides an important public benefit to Americans seeking to fulfill their dream of homeownership.

The fiscal year 2004 budget supports five HUD programs that help to promote homeownership in Native American and Hawaiian communities.

The Native American Housing Block Grants (NAHBG) program provides funds to tribes and to tribally designated housing entities for a wide variety of affordable-

housing activities. Grants are awarded on a formula basis that was established through negotiated rulemaking with the tribes. The NAHBG program allows funds to be used to develop new housing units to meet critical shortages in housing. Other uses include housing assistance to modernize and maintain existing units; housing services, including direct tenant rental subsidy; crime prevention; administration of the units; and certain model activities.

The Title VI Federal Guarantees for Tribal Housing program provides guaranteed loans to recipients of the Native American Housing Block Grant who need additional funds to engage in affordable-housing activities but who cannot borrow from private sources without the guarantee of payment by the Federal Government. Because the grantees have not applied for all funds appropriated in prior years, the amount of subsidy required in fiscal year 2004 is reduced from $2 million to $1 million, and the loan amount supported is reduced from $16.6 million to $8 million. Prior-year funds remain available until used.

The Indian Housing Loan Guarantee (Section 184) program helps Native Americans to access private mortgage financing for the purchase, construction, or rehabilitation of single-family homes. The program guarantees payments to lenders in the event of default. In fiscal year 2004, $1 million is requested in credit subsidy for 100 percent Federal guarantees of approximately $27 million in private loans.

The Hawaiian Homelands Homeownership Act of 2000 established the Native Hawaiian Home Loan Guarantee Fund, which is modeled after Section 184. The fiscal year 2004 budget will provide $1 million in credit subsidy to secure approximately $35 million in private loans.

Modeled after the NAHBG, the Native Hawaiian Housing Block Grant (NHHBG) was authorized by the Hawaiian Homelands Homeownership Act of 2000. The fiscal year 2004 budget will provide $10 million. Grant funds will be awarded to the Department of Hawaiian Home Lands and may be used to support acquisition, new construction, reconstruction and rehabilitation. Activities will include real property acquisition, demolition, financing, and development of utilities and utility services, as well as administration and planning.

PROMOTING DECENT AFFORDABLE HOUSING

Ideally, homeownership would be an option for everyone, but even with its new and expanded homeownership initiatives, the administration recognizes that many families will have incomes insufficient to support a mortgage in the areas where they live. Therefore, along with boosting homeownership, HUD's proposed fiscal year 2004 budget promotes the production and accessibility of affordable housing for families and individuals who rent. This is achieved, in part, by providing States and localities new flexibility to respond to local needs.

HUD has three major rental assistance programs that collectively provide rental subsidies to approximately 4.5 million households nationwide. The major vehicle for providing rental subsidies is the Section 8 program, which is authorized in Section 8 of the U.S. Housing Act of 1937. Under this program, HUD provides subsidies to individuals (tenant-based) who seek rental housing from qualified and approved owners, and also provides subsidies directly to private property owners who set aside some or all of their units for low-income families (project-based). Finally, HUD subsidizes the operation, maintenance, and modernization of an additional 1.2 million public housing units.

HUD is proposing a new initiative—Housing Assistance for Needy Families (HANF)—under which the funding for vouchers, which has been allocated to approximately 2,600 public housing authorities (PHAs), would be allocated to the States. States, in turn, could choose to contract with PHAs or other entities to administer the program. The funding for both incremental and renewal vouchers will be contained in the HANF account.

There are a number of advantages to providing the voucher funds to the States. The allocation of funds to States rather than PHAs should allow for more flexibility in efforts to address problems in the underutilization of vouchers that have occurred in certain local markets. The allocation of funds to the States will be coupled with additional flexibility in program laws and rules, to allow States to better address local needs and to commit vouchers for program uses that otherwise would go unused. In the former Housing Certificate Fund, more than $2.41 billion has been recaptured over the last 2 years from the Housing Choice Voucher program. These large recaptures have resulted in a denial of appropriated housing assistance for thousands of families, which will be avoided under HANF. The administration of the HANF program should run more smoothly, with HUD managing fewer than 60 grantees compared to approximately 2,600 today.

Allocation of the funds to the States should allow for more coordinated efforts with the Temporary Assistance for Needy Families (TANF) program, and the One-Stop Career Center system under the Workforce Investment Act, successfully administered by the States, to support the efforts of those now receiving public assistance who are climbing the ladder of self-sufficiency.

HUD proposes that fiscal year 2004 be a transition year in which PHAs would continue to receive voucher funds directly while States ramp up in preparation for administering the HANF program. Up to $100 million would be made available to assist States with this effort. In addition, States could apply for incremental vouchers if they are ready to do so, and could request waivers that would assist in the implementation of their programs.

The HANF account would contain $13.6 billion in funding for voucher renewals and incremental vouchers. This would include funding for up to $36 million in incremental vouchers for persons with disabilities, additional incremental vouchers to the extent that funding is available, $252 million for tenant protection vouchers to prevent displacement of tenants affected by public housing demolition or disposition of project-based Section 8 contract terminations or expirations, and $72 million for Family Self-Sufficiency Coordinators.

For fiscal year 2004, the administration proposes separate funding for vouchers under the new HANF account. The Project Based Rental Assistance Account will retain funding for renewals of expiring project-based rental assistance contracts under Section 8, including amounts necessary to maintain performance-based contract administrators. An appropriation of $4.8 billion is requested for these renewals in fiscal year 2004, which is a $300 million increase over the current fiscal year. In addition to new appropriations, funds available in this account from prior-year balances and from recaptures will augment the amount available for renewals and will be available to meet amendment requirements for on-going contracts that have depleted available funding, as well as a rescission of $300 million.

It is anticipated that approximately 870,000 project-based units under rental assistance will require renewal in fiscal year 2004, an increase of about 50,000 units from the current fiscal year, continuing the upward trend stemming from first-time expirations in addition to contracts already under the annual renewal cycle. The HANF account funds an estimated 30,300 units in subsidized or partially assisted projects requiring tenant-protection vouchers due to terminations, opt-outs, and prepayments.

Public Housing is the other major form of assistance that HUD provides to the Nation's low-income population. In fiscal year 2004, HUD anticipates that there will be approximately 1.2 million public housing units occupied by tenants. These units are under the direct management of approximately 3,050 PHAs. Like the Section 8 program, tenants pay approximately 30 percent of their income for rent and utilities, and HUD subsidies cover the remaining costs.

HUD is programmatically and financially committed to ensuring that the existing public housing stock is either maintained in good condition or is demolished. Maintenance is achieved through the subsidy to PHAs for both operating expenses and modernization costs. Legislation to implement a new financing initiative is included and enhanced in the fiscal year 2004 budget. This will allow for the acceleration of the reduction in the backlog of modernization requirements in public housing facilities across the Nation.

The formula distribution of funds through the Public Housing Operating Fund takes into account the size, location, age of public housing stock, occupancy, and other factors intended to reflect the costs of operating a well-managed public housing development. In fiscal year 2004, HUD will increase the amounts provided for operating subsidies from $3.530 billion to $3.559 billion, plus $15 million to fund activities associated with the Resident Opportunities and Supportive Services (ROSS) program.

The Public Housing Capital Fund provides formula grants to PHAs for major repairs and modernization of its units. The fiscal year 2004 budget will provide $2.641 billion in this account. This amount is sufficient to meet the accrual of new modernization needs in fiscal year 2004.

Of the funds made available, up to $40 million may be maintained in the Capital Fund for natural disasters and emergencies. Up to $30 million can be used for demolition grants—to accelerate the demolition of thousands of public housing units that have been approved for demolition but remain standing. Also in fiscal year 2004, up to $40 million will be available for the ROSS program (in addition to $15 million in the Operating Fund), which provides supportive services and assists residents in becoming economically self-sufficient.

To address the backlog of capital needs, the Department is including a legislative proposal in its 2004 budget called the Public Housing Reinvestment Initiative

(PHRI) that will allow PHAs to use their Operating Fund and Capital Fund grants to facilitate the private financing of capital improvements. This initiative also will encourage development-based financial management and accountability in PHAs.

These objectives would be achieved by authorizing HUD to approve, on a property-by-property basis, PHA requests to convert public housing developments (or portions of developments) into project-based voucher assistance. The conversion of units to project-based vouchers will allow the PHAs to secure private financing to rehabilitate or replace their aging properties by pledging the property as collateral for private loans for capital improvements.

The fiscal year 2004 budget enhances this proposal, which was made in last year's budget request, by also proposing a guarantee of up to 80 percent of the principal of loans made to provide the capital for PHRI. There was substantial interest by PHAs and others in last year's budget proposal; the loan guarantee should greatly facilitate the involvement of private lenders. The budget includes $131 million in subsidy for this guarantee, which would allow the guarantee of almost $2 billion in loans and significantly accelerate the improvement in public housing conditions.

The PHRI reflects our vision for the future of public housing.

For 10 years, the HOPE VI program has been the government's primary avenue for funding the demolition, replacement, and rehabilitation of severely distressed public housing. With $2.5 billion already awarded but not yet spent, and an additional $1 billion to be awarded in 2002 and 2003, HOPE VI will continue to serve communities well into the future.

When HOPE VI was first created, it was the only significant means of leveraging private capital to revitalize public housing properties. But that is no longer the case. Today, HUD has approved bond deals that have leveraged over $500 million in the last couple of years. PHAs can mortgage their properties to leverage private capital. In Maryland, PHAs are forming consortiums to leverage their collective resources and assets to attract private capital. Cities such as Chicago are committing hundreds of millions of dollars of their own money to revitalize public housing neighborhoods. HUD is also seeking additional tools from Congress such as the Public Housing Reinvestment Initiative.

HOPE VI has served its purpose. Established to revitalize 100,000 of the Nation's most severely distressed public housing units, the program has funded the demolition of over 115,000 severely distressed public housing units and the production of over 60,000 revitalized dwellings. There are also more effective and less costly alternatives. The average cost per rebuilt HOPE VI unit is approximately $120,000, compared to $80,000 in HUD's HOME program. Only 20,000 new HOPE VI units have been completed to date. On average, 5 years pass between the time a HOPE VI award is made and a new unit is occupied. In contrast, during the same period, HUD's HOME program produced 70,000 new rental units with an average construction time of about 2 years. It is time to look to the future and pursue new opportunities, such as those I have noted, which can more effectively serve local communities.

Among HUD's other rental assistance programs, FHA insures mortgages on multifamily rental housing projects. In fiscal year 2004, FHA will reduce the annual mortgage insurance premiums on its largest apartment new construction program, Section 221(d)(4), for the second year in a row—from 57 basis points to 50 basis points. With this reduction, the Department estimates that it will insure $3 billion in apartment development loans through this program, for the annual production of an additional 42,000 new rental units, most of which will be affordable to moderate-income families, and most of which will be located in underserved areas. Additionally, because this program is no longer dependent on appropriated subsidies, FHA avoids the uncertainty and the suspensions that have plagued the program in prior years. When combined with other multifamily mortgage programs, including those serving non-profit developers, nursing homes, and refinancing mortgagors, FHA anticipates providing support for a total of some multifamily 178,000 housing units.

In addition to the extensive use of HOME funds for homeownership, the HOME program has invested heavily in the creation of new affordable rental housing. The program has, in fact, supported the building, rehabilitation, and purchase of more than 322,000 rental units. Program funds have also provided direct rental assistance to more than 88,000 households.

The Native American Housing Block Grant (NAHBG) and Native Hawaiian Housing Block Grant (NHHBG) are also used for a wide variety of affordable-housing activities. Several other HUD programs contribute to rental assistance, although not as a primary function. For example, the flexible Community Development Block Grant (CDBG) program can be used to support rental housing activities.

Regulatory barriers on the State and local level have an enormous impact on the development of rental and affordable housing. HUD is committed to working with

States and local communities to reduce regulatory and institutional barriers to the development of affordable housing. HUD plans to create a new Office of Regulatory Reform and commit an additional $2 million in fiscal year 2004 for research efforts to learn more about the nature and extent of regulatory obstacles to affordable housing. Through this office, researchers will develop the tools needed to measure and ultimately reduce the effects of excessive barriers that restrict the development of affordable housing at the local level.

STRENGTHENING COMMUNITIES

HUD is committed to preserving America's cities as vibrant hubs of commerce and making communities better places to live, work, and raise a family. The fiscal year 2004 budget provides States and localities with tools they can put to work improving economic health and promoting community development. Perhaps the greatest strength of HUD's economic development programs is the emphasis they place on helping communities address locally determined development priorities through decisions made locally.

The mainstay of HUD's community and economic development programs is the CDBG program. In fiscal year 2004, total funding requested for CDBG is $4.732 billion. Funding for the CDBG formula program will increase $95 million from the fiscal year 2003 enacted level, to $4.436 billion. Currently, 865 cities, 159 counties, and 50 States plus Puerto Rico receive formula grant funds.

HUD is analyzing the impact of the 2000 Census on the distribution of CDBG funds to entitlement communities and States. Based on this review, revisions to the existing formula may be proposed so that funds are allocated to those communities that need them the most and will use them effectively. Any proposals will, of course, consider measures of need and fiscal capacity, as well as other factors.

Of the $4.732 billion in fiscal year 2004, $4.436 billion will be distributed to entitlement communities, States, and insular areas, and $72.5 million will be distributed by a competition to Indian tribes for the same uses and purposes. This budget presumes legislative changes proposed in fiscal year 2003 to fund CDBG grants to insular areas as part of the formula, and to shift administration of the Hawaii Small Cities program to the State. The remaining $224 million is for specific purposes and programs at the local level and is distributed generally on a competitive grant basis.

As it did in fiscal year 2003, the fiscal year 2004 budget again proposes $16 million for the Colonias Gateway Initiative (CGI). The CGI is a regional initiative, focusing on border States where the colonias are located. Colonias are small, generally unincorporated communities that are characterized by substandard housing, lack of basic infrastructure and public facilities, and weak capacity to implement economic development initiatives. The fiscal year 2004 funds will: provide start-up seed capital to develop baseline socio-economic information and a geographic information system; identify and structure new projects and training initiatives; fund training and business advice; and provide matching funds to develop sustainable housing and economic development projects that, once proven, could be taken over by the private sector.

HUD participates in the privately organized and initiated National Community Development Initiative (NCDI). The fiscal year 2004 budget will provide $30 million for the NCDI and Habitat for Humanity, in which HUD has funded three phases of work since 1994. A fourth phase will emphasize the capacity building of community-based development organizations, including community development corporations, in the economic arena and related community revitalization activities through the work of intermediaries, including the Local Initiatives Support Corporation and the Enterprise Foundation.

The fiscal year 2004 budget provides $31.9 million to assist colleges and universities, including minority institutions, to engage in a wide range of community development activities. Funds are also provided to support graduate programs that attract minority and economically disadvantaged students to participate in housing and community development fields of study.

Grant funds are awarded competitively to work study and other programs to assist institutions of higher learning in forming partnerships with the communities in which they are located and to undertake a wide range of academic activities that foster and achieve neighborhood revitalization.

The fiscal year 2004 budget requests $65 million for the YouthBuild program. This program is targeted to high school dropouts ages 16 to 24, and provides these disadvantaged young adults with education and employment skills through constructing and rehabilitating housing for low-income and homeless people. The program also provides opportunities for placement in apprenticeship programs or in jobs. The fiscal year 2004 request will serve more than 3,728 young adults.

The Community Renewal Tax Relief Act of 2000 authorized the designation of 40 Renewal Communities (RCs) and nine Round III Empowerment Zones (EZs), and provided tax incentives which can be used to encourage community revitalization efforts. Private investors in both RC and EZ areas are eligible for tax benefits over the next 10 years tied to the expansion of job opportunities in these locations. These programs allow communities to design and administer their own economic development strategies with a minimum of Federal involvement. No grant funds have been authorized or appropriated for RCs or Round III EZs. Round II Empowerment Zone communities have received grant funding in the past, but after 4 years of funding, still have balances of unused funds available. Of course, all of the tax and other benefits associated with Zone designation remain intact. Also, both HOME and CDBG funds can be used for the same activities.

The administration is deeply engaged in meeting the challenge of homelessness that confronts many American cities. Across the scope of the Federal Government, funding for homeless-specific assistance programs increases 14 percent in the fiscal year 2004 budget proposal. We are fundamentally changing the way the Nation manages the issue of homelessness by focusing more resources on providing permanent housing and supportive services for the homeless population, instead of simply providing more shelter beds.

HUD is leading an unprecedented, administration-wide commitment to eliminating chronic homelessness within the next 10 years. Persons who experience chronic homelessness are a sub-population of approximately 150,000 individuals who often have an addiction or suffer from a disabling physical or mental condition, and are homeless for extended periods of time or experience multiple episodes of homelessness. For the most part, these individuals get help for a short time but soon fall back to the streets and shelters. Research indicates that although these individuals may make up less than 10 percent of the homeless population, they consume more than half of all homeless services because their needs are not comprehensively addressed. Thus, they continually remain in the homeless system.

As a first step, the administration reactivated the U.S. Interagency Council on Homelessness. Reactivating the Council has provided better coordination of the various homeless assistance programs that are directly available to homeless individuals through HUD, HHS, VA, the Department of Labor, and other agencies. $1.5 million is earmarked within the Homeless Assistance Account for the operations of the Council in fiscal year 2004.

HUD and its partners are focused on improving the delivery of homeless services, which includes working to cut government red tape and make the funding process simpler for those who provide homeless services. The fiscal year 2004 budget continues to provide strong support to homeless persons and families by funding the HUD homeless assistance programs at the record level of $1.528 billion.

Several changes to the program are being proposed that will provide new direction and streamline the delivery of funds to the local and non-profit organizations that serve the homeless population.

The fiscal year 2004 budget includes funding for a new program to address the President's goal of ending chronic homelessness in 10 years: the Samaritan Initiative. Funded by HUD at $50 million, the Samaritan Initiative will provide new housing options as well as aggressive outreach and services to homeless people living on the streets. This program is part of a broader, coordinated Federal effort between HUD, HHS, VA and the Interagency Council on Homelessness.

In order to significantly streamline homeless assistance in this Nation and increase a community's flexibility in combating homelessness, HUD will propose legislation to consolidate its current homeless assistance programs into a single program.

The administration is also proposing legislation that would transfer intact the Emergency Food and Shelter Program (EFSP) that was administered by FEMA to HUD. The transfer of this $153 million program would allow for the consolidation of all emergency shelter assistance—EFSP and the Emergency Shelter Grant program—under one agency. EFSP funds are distributed to a National Board, which in turn allocates funds to similarly comprised local Boards in eligible jurisdictions. Eligibility for funding is based on population, poverty, and unemployment data. The Board will be chaired by the Secretary of HUD and will include the American Red Cross, Salvation Army, and the United Way, as well as other experts.

In addition to funding homeless supportive services, the fiscal year 2004 funds services benefiting adults and children from low-income families, the elderly, those with physical and mental disabilities, victims of predatory lending practices, and families living in housing contaminated by lead-based paint hazards.

Nearly two million households headed by an elderly individual or a person with disabilities receive HUD rental assistance that provides them with the opportunity to afford a decent place to live and oftentimes helps them to live independent lives.

The fiscal year 2004 budget will provide the same level of funding for Housing for the Elderly and Housing for Persons with Disabilities as was requested for fiscal year 2003. The effectiveness of the Housing for the Elderly program was evaluated this past year using the Office of Management and Budget's new Program Assessment Rating Tool (PART), and received low performance scores. The administration recognizes the need to improve delivery of housing assistance to the elderly (Section 202) and will examine possible policy changes or reforms to strengthen performance. Funding for housing for the elderly is awarded competitively to non-profit organizations that construct new facilities. The facilities are then provided with rental assistance, enabling them to accept very low-income residents. In fiscal year 2004, $773 million plus $10 million in recaptures will be provided for elderly facilities. Many of the residents live in the facilities for years; over time, these individuals are likely to become frailer and less able to live in rental facilities without some additional services. Therefore, the program is providing $30 million of the grants for construction to convert all or part of existing properties to assisted-living facilities. Doing so will allow individual elderly residents to remain in their units. In addition, $53 million of the grant funds will be targeted to funding the services coordinators who help elderly residents obtain needed and supportive service from the community.

The budget for fiscal year 2004 proposes to separately fund grants for Supportive Housing for Persons with Disabilities (Section 811) at $251 million. The disabled facilities grant program will also continue to set aside funds to enable persons with disabilities to live in mainstream environments. Up to 25 percent of the grant funds can be used to provide Section 8-type vouchers that offer an alternative to congregate housing developments. In fiscal year 2004, $42 million of the grant funds will be provided to renew "mainstream" Section 8-type vouchers so that, where appropriate, individuals can continue to use their vouchers to obtain rental housing in the mainstream rental market. The Housing for Persons with Disabilities program also received low performance scores when it was evaluated using the PART. The Department proposes to reform the program to allow faith-based and other nonprofit sponsors more flexibility in using grant funds to better respond to local needs. In addition, the reformed program would recognize the unique needs of people with disabilities at risk of homelessness, and give priority to serving this group as part of the administration's Samaritan Initiative to end chronic homelessness.

One of the targeted uses of new incremental vouchers under the Section 8 program is for non-elderly disabled individuals who are currently residing in housing that was designated for the elderly. Disabled individuals are provided Section 8 vouchers to continue their subsidies elsewhere. If a sufficient number of applications for these vouchers are not received, the PHAs may use them for any other disabled individuals on the PHAs' waiting lists. In fiscal year 2004, the Department will allocate $36 million for the non-elderly disabled to fund approximately 5,500 vouchers.

HUD will also provide $297 million in fiscal year 2004 in new grant funds for housing assistance and related supportive services for low-income persons with HIV/AIDS and their families. This is an increase of $5 million over the fiscal year 2003 level and is based on the most recent statistics prepared by the Centers for Disease Control and Prevention. Although most grants are allocated by formula, based on the number of cases and highest incidence of AIDS, a small portion are provided through competition for projects of national significance. The program will renew all existing grants in fiscal year 2004 and provide new grants for an expected three new jurisdictions. Since 1999, the number of formula grantees has risen from 97 to an expected 114 in fiscal year 2004.

HUD's Lead-Based Paint Program is the central element of the President's program to eradicate childhood lead-based paint poisoning in 10 years or less. In fiscal year 2004, funding for the lead-based paint program will increase to $136 million from $126 million provided in the President's request for fiscal year 2003. Grant funds are targeted to low-income, privately owned homes most likely to expose children to lead-based paint hazards. Included in the total funding is $10 million in funds for Operation LEAP, which is targeted to organizations that demonstrate an exceptional ability to leverage private sector funds with Federal dollars, and funding for technical studies to reduce the cost of lead hazard control. The program also conducts public education and compliance assistance to prevent childhood lead poisoning. The President's budget requests an additional $25 million for a new, innovative lead hazard reduction demonstration program to eliminate lead-based paint hazards in homes of low-income children, funded under the HOME program. This new program will provide creative ways of identifying and eliminating lead-based paint hazards—methods that will serve as models for existing lead hazard control programs, such as replacing old windows contaminated with high levels of lead paint dust with new energy-efficient windows.

Also included is $10 million for the Healthy Homes Initiative, which is targeted funding to prevent other housing-related childhood diseases and injuries such as asthma and carbon monoxide poisoning. Working with other agencies such as the Centers for Disease Control and the Environmental Protection Agency, HUD is bringing comprehensive expertise to the table in housing rehabilitation and construction, architecture, urban planning, public health, environmental science, and engineering to address a variety of childhood problems that are associated with housing.

HUD is requesting $17 million in fiscal year 2004 to meet the expanded costs of its Manufactured Housing Standards Program. This is a $4 million increase over the current fiscal year. These funds will meet the costs of hiring contractors to inspect manufacturing facilities, make payments to the States to investigate complaints by purchasers, and cover administrative costs, including the Department's staff. Fees have been set by regulation to support the operation of this program.

ENSURING EQUAL OPPORTUNITY IN HOUSING

In this land of opportunity, no one should be denied housing because of that individual's race, color, national origin, religion, sex, familial status or disability. The administration is committed to the fight against housing discrimination, and this is reflected in HUD's budget request for fiscal year 2004.

HUD is the primary Federal agency responsible for the administration of fair housing laws. The goal of these programs is to ensure that all families and individuals have access to a suitable living environment free from discrimination. HUD contributes to fair housing enforcement and education by directly enforcing the Federal fair housing laws and by funding State and local fair housing efforts through two programs: the Fair Housing Assistance Program (FHAP) and the Fair Housing Initiatives Program (FHIP).

The fiscal year 2004 budget will provide $29.7 million—an increase of $4 million above the fiscal year 2003 level—under FHAP to support State and local jurisdictions that administer laws substantially equivalent to the Federal Fair Housing Act. The increase will provide: (1) an education campaign to address persistently high rates of discrimination against Hispanic renters (as identified by the 2000 Housing Discrimination Study); (2) funding for a Fair Housing Training Academy to better train civil rights professionals and housing partners in conducting fair housing investigations; and (3) additional funding for expected increases in discrimination cases processed by State and local fair housing agencies as a result of increased education and outreach activities. The Department supports FHAP agencies by providing funds for capacity building, complaint processing, administration, special enforcement efforts, training, and the enhancement of data and information systems. FHAP grants are awarded annually on a noncompetitive basis.

The fiscal year 2004 budget will provide $20.3 million in grant funds for non-profit FHIP agencies nationwide to directly target discrimination through education, outreach, and enforcement. The FHIP program for fiscal year 2004 is structured to respond to the finding of the 3-year National Discrimination Study and related studies, which reflect the need to expand education and outreach efforts nationally as a result of continuing high levels of discrimination.

Fighting predatory lending is an important activity for FHIP agencies, as reports continue to show that abusive lenders frequently target racial minorities, the elderly, and women for mortgage loans that have exorbitant fees and onerous conditions.

Educational outreach is a critical component of HUD's ongoing efforts to prevent or eliminate discriminatory housing practices. HUD will continue its work to make individuals more aware of their rights and responsibilities under the Fair Housing Act. A major study titled "How Much Do We Know" emphasized the continuing need for public education on fair housing laws; in fiscal year 2004, FHIP organizations throughout the country will continue to fund a major education and public awareness campaign in support of study findings.

The colonias have many barriers to fair and affordable housing in both rental and homeownership. Many of the residents are recent immigrants unaware of their rights under the Fair Housing Act. Funds will be targeted to FHIP agencies that provide education and enforcement efforts in those areas. FHIP-funded fair housing organizations with grants targeted to the colonias will provide residents with information on the Fair Housing Act and substantially equivalent laws and respond to allegations of discriminatory practices.

The FHIP program will continue to emphasize the participation of faith-based and community partners. Recognizing the tremendous impact that education has on the implementation of fair housing laws, virtually any entity (public, private, profit, and

non-profit) that actively works to prevent discrimination from occurring is eligible to apply for funds under this initiative.

Faith- and community-based partnerships in FHIP will empower citizens by: (1) encouraging networking of State and local fair housing enforcement agencies and organizations; (2) working in unison with faith-based organizations; and (3) promoting a fair housing presence in places where little or none exists today. HUD will emphasize partnerships with grassroots and faith-based organizations that have strong ties to those groups identified in the 2000 Housing Discrimination Study as being most vulnerable to housing discrimination, particularly the growing Hispanic population.

Promoting the fair housing rights of persons with disabilities is a Departmental priority and will remain an important initiative within FHIP. Fair Housing Act accessibility design and construction training and technical guidance is being implemented through Project Fair Housing Accessibility First (formerly called the Project on Training and Technical Guidance). The project, which is now in its second year, will provide training at 48 separate venues to architects, builders, and others on how to design and construct multifamily buildings in compliance with the accessibility requirements of the Fair Housing Act. During that same period, Project Fair Housing Accessibility First will maintain a hotline and a website to provide personal assistance to housing professionals on design and construction problems.

PROMOTING THE PARTICIPATION OF FAITH-BASED AND COMMUNITY ORGANIZATIONS

HUD's Center for Faith-Based and Community Initiatives ("the Center") was established by Executive Order 13198 on January 29, 2001. Its purpose is to coordinate the Department's efforts to eliminate regulatory, contracting, and other obstacles to the participation of faith-based and other community organizations in social service programs.

The Center will continue to play a key role in fiscal year 2004 in facilitating intra-Departmental and interagency cooperation regarding the needs of faith-based and community organizations. It will focus on research; law and policy; development of an interagency resource center to service faith-based and community partners; and expanding outreach, training, and coalition building. Additionally, the Center will participate in the furtherance of HUD's overall strategic goals and objectives—particularly as they relate to partnership with faith-based and community organizations.

On December 12, 2002, the President issued Executive Order 13279, "Equal Protection of the Laws for Faith-Based and Community Organizations." Its intent is to ensure that faith-based and community organizations are not unjustly discriminated against by regulations and bureaucratic practices and policies. The Order directs the Center to: (1) amend any policies that contradict the Order; (2) where appropriate, implement new policies that are necessary to further the fundamental principles and policymaking criteria set forth in the Order; (3) implement new policies to ensure collection of data regarding the participation of faith-based and community organizations in social service programs that receive Federal financial assistance; and (4) report to the President the actions it proposes to undertake to implement the Order.

In compliance with Executive Orders 13198 and 13279, the Center will continue to participate in implementing HUD's strategic goals and objectives, as well as the following key responsibilities: conduct an annual Department-wide inventory to identify barriers to participation of faith-based and community organizations in the delivery of social services; initiate and support efforts to remove said barriers; widen the pool of grant applicants to include historically excluded groups; identify and reach out to faith- and community-based organizations with little or no history of working with HUD; work with HUD program offices to strengthen and expand their faith-based and community partnerships; and educate HUD personnel and State and local governments on the faith-based and community initiative.

EMBRACING HIGH STANDARDS OF ETHICS, MANAGEMENT, AND ACCOUNTABILITY

Improving the performance in HUD's critically needed housing and community development programs begins at home in the Department, by embracing high standards of ethics, management and accountability. The President's Management Agenda is focused on how we can better manage to fulfill our mission by addressing the Department's longstanding major management challenges, high-risk program areas, and material management control weaknesses. Accountability begins with clarity on the Department's goals, priorities and expectations for performance results. We have integrated the goals of the President's Management Agenda with our budget, our

annual management operating plans, and our management performance evaluation processes, to better assure accountability and results.

A key focus of the President's Management Agenda is to address deficiencies in HUD's management of its financial and information systems and human capital, which have hindered the Department's ability to properly control and mitigate risks in the rental housing assistance and single family mortgage insurance programs. There are no quick fixes for these longstanding problems, but we continue to pursue a deliberate and methodical improvement process that is clearly demonstrating progress in improving HUD's program delivery structure and performance results.

Financial Management and Information Systems

A primary focus of the past 2 years has been on addressing the Department's most significant financial management systems deficiencies in the FHA, and on stabilizing and enhancing HUD's existing core financial management systems operating environment. The FHA Subsidiary Ledger Project is proceeding on-schedule as a multi-year, phased effort to replace FHA's commercial accounting system with a system that fully complies with Federal requirements, including budgetary accounting and funds control and credit reform accounting. A major project milestone was accomplished with the successful implementation of the new FHA general ledger system in October 2002. Enhanced funds control capabilities of the new system are scheduled for implementation in 2004, and FHA will continue to adapt and further integrate its 19 insurance program feeder systems over the next several years to achieve full systems compliance by 2006.

While FHA awaits the completion of these systems improvements, they have been working with the HUD Chief Financial Officer on a Department-wide effort to improve HUD's funds control. HUD's handbook on policies and procedures for the administrative control of funds had not been updated since 1984. We updated and strengthened these policies and procedures in a new Administrative Control of Funds Handbook issued in December 2002.

With respect to HUD's core financial management system, the HUD Central Accounting and Program System (HUDCAPS), we have been focused on stabilizing and enhancing systems operations to support the accelerated preparation and audit of HUD's consolidated financial statements. We eliminated two reportable conditions from the OIG's fiscal year 2000 financial statement audit related to: (1) the reliability and security of HUD's critical financial systems, and (2) controls over fund balance with Treasury reconciliations. We prepared mid-year financial statements in fiscal year 2002 and have begun the preparation of quarterly statements in fiscal year 2003. Our year-end audit and reporting process was accelerated by 1 month for fiscal year 2002, and we have plans for further acceleration the next 2 years to meet the OMB mandate for issuance of our fiscal year 2004 audited financial statements by November 15, 2004.

HUD has received unqualified audit opinions on the Department's consolidated financial statements for the last 3 consecutive years—a strong indicator of financial management stability and accountability. However, the audit of our fiscal year 2002 financial statements was not trouble free. It contained 3 material weakness and 10 reportable conditions. Addressing these remaining internal control deficiencies is a high priority for the Department.

While HUD's core financial management system, HUDCAPS, is substantially compliant with Federal financial management systems requirements, it is inefficient and expensive to maintain. We initiated the HUD Integrated Financial Management Improvement Project (HIFMIP) to study options for the next generation core financial management system to replace HUDCAPS. Previous HUD systems integration improvement efforts failed to fully meet their intended objectives due to inadequate planning and commitment. HUD is taking the time to properly plan this project. A HIFMIP Executive Advisory Committee was convened in January 2003—with representation from the Principal Staff of HUD's major organizational components, including FHA and GNMA, and an advisory role has been provided for the HUD OIG. A new Assistant CFO for Systems was hired in October 2002, and Project Manager was hired for HIFMIP in February 2003. The HIFMIP Vision is scheduled for completion by January 2004, and feasibility studies with a systems recommendation by July 2004.

HUD's overall fiscal year 2004 information technology (IT) portfolio will benefit from our continuing efforts to improve the IT capital planning process, convert to performance-based IT service contracts, strengthen IT project management to better assure results, extend the data quality improvement program, and improve systems security on all platforms and applications. HUD is also continuing to pursue increased electronic commerce and is actively participating in the President's "E-Government" projects to better serve our citizens and realize cost-efficiencies through

standardized systems solutions in common areas of information and processing need.

Human Capital Management

HUD's staff, or "human capital," is its most important asset in the delivery and oversight of the Department's mission. Effective human capital management is the purview of all HUD managers and program areas, and improvements have been geared towards meeting HUD's primary human capital management challenges. HUD has taken significant steps to enhance and better utilize its existing staff capacity, and to obtain, develop and maintain the staff capacity necessary to adequately support HUD's future program delivery. Building upon the REAP and TEAM management tools, a new staff resource estimation and allocation system implemented in 2002, HUD will complete a Comprehensive Workforce Analysis in 2004 to serve as the main component to fill mission critical skill gaps through succession planning, hiring and training initiatives in a Five-Year Human Capital Management Strategy.

HUD is working to determine where application of competitive sourcing to staff functions identified as commercial would result in better performance and value for the government. We have worked with OMB to ensure the appropriate amount and mix of competitive sourcing opportunities, taking into account the workforce we have inherited, including the significant downsizing and extensive outsourcing of administrative and program functions over the past decade. HUD's Competitive Sourcing Plan identifies some initial opportunities for consideration of possible outsourcing, in-sourcing or direct conversion studies to realize the President's goals for cost efficiency savings and improved service delivery. HUD will continue to assess its activities for other areas where competitive sourcing studies might benefit the Department.

Strengthening Controls Over Rental Housing Assistance

HUD's considerable efforts to improve the physical conditions at HUD-supported public and assisted housing projects are meeting with success. HUD and its housing partners have already achieved the original housing quality improvement goals through fiscal year 2005 and are raising the bar with new goals. However, HUD overpays hundreds of millions of dollars in rental housing subsidies due to the incomplete reporting of tenant income and the improper calculation of tenant rent contributions. Under the President's Management Agenda, HUD's goal is to reduce rental assistance program errors and resulting erroneous payments 50 percent by 2005. HUD has established aggressive interim goals for a 15 percent reduction in 2003 and a 30 percent reduction in 2004.

To achieve our erroneous assistance payments reduction goal, we have taken steps to reestablish an adequate HUD monitoring capacity in the field to oversee intermediary performance. Field staff is conducting intense, on-site monitoring reviews to detect and correct income verification and subsidy calculation errors. We are also working to provide intermediaries with improved program guidance and automated tools to more efficiently and effectively administer the rental assistance programs. Program simplification proposals are also under consideration, along with a pending legislative proposal for increased authority to perform more effective computer matching with tenant income data sources to enable intermediaries to perform up-front verifications of income used in rent and subsidy calculations. Updated error measurement studies will be performed on program activity in 2003 through 2005 to assess the effectiveness of our efforts to reduce program and payment errors.

Improving FHA's Single Family Housing Programs Risk Management

FHA manages its single-family housing mortgage insurance program area in a manner that balances program risks with the furtherance of program goals, while maintaining the financial soundness of the Mortgage Mutual Insurance (MMI) Fund that supports these programs. The MMI Fund is financially sound and the single-family housing programs are contributing to record homeownership rates, with a focus on homebuyers that are underserved by the conventional market. Nevertheless, overall program performance and the condition of the MMI Fund could be further improved if all lenders, appraisers, property managers and other participants in FHA's program delivery structure fully adhered to FHA program requirements designed to reduce program risks and further program goals.

In the past 2 years, FHA has initiated or completed numerous actions to improve the content, oversight and enforcement of its program requirements, including consideration of alternative business processes. FHA developed 16 rules to address deceptive or fraudulent practices. This includes the new Appraiser Watch program, improvements to the Credit Watch program that will identify problem loans and lenders earlier on, new standards for home inspectors, a final rule to prohibit prop-

erty "flipping" in FHA programs, and rules to prevent future swindles like the 203(k) scam that threatened the availability of affordable housing in New York City. These reforms, and the greater transparency they ensure, will make it more difficult for unscrupulous lenders to abuse borrowers. The HUD budget ensures that consumer education and enhanced financial literacy remain potent weapons in combating predatory lending.

In addition, FHA continues to enhance its staff capacity for administering this program area, and continues to achieve favorable property disposition results through its performance-based management and marketing (M&M) contracts. M&M contracts have resulted in a steady decline in FHA's property inventory, from 36,000 homes at the end of fiscal year 2000 to 30,113 at the end of fiscal year 2002. The loss per claim on insured mortgage defaults has been cut from 37 percent to 29.5 percent.

CONCLUSION

As we implement our proposed fiscal year 2004 budget, we will also judge our success by the lives and communities we have helped to change through HUD's mission of compassionate service to others: the young families who have taken out their first mortgage and become homeowners, the homeless individuals who are no longer homeless, the neighborhoods that have found new hope, the faith-based and community organizations that are today using HUD grants to deliver social services, and the neighborhoods once facing a shortage of affordable housing that now have enough homes for all.

Empowered by the resources provided for and supported by HUD's proposed budget for fiscal year 2004, our communities and the entire Nation will grow even stronger. And more citizens will come to know the American Dream for themselves.

I would like to thank each of you for your support of my efforts, and I welcome your guidance as we continue our work together.

Thank you.

Senator BOND. Thank you very much, Mr. Secretary. Senator Mikulski has agreed that she would go ahead and vote, and she has a couple of other responsibilities this morning. I am going to ask some questions and adjourn temporarily until she returns, and I have asked her since she has some commitments, to take all the time she needs when she comes back, and then I will pick up from there.

First, I appreciate your willingness to work with us on HOPE VI. Surely everybody understands the program has been around and there are obviously ways that it can be improved or changed, and I am not resistant to that. But as I believe Senator Mikulski very clearly indicated, we both have a strong commitment that this is a vitally needed part of so many communities in this country. And yes, there are a lot fewer completed than planned. It takes a long time, as you well know, to get these things out of the grand. Maybe they could be doing a better job, but from what I know of the projects, they spend about 2 or 3 percent in the first year, and then they really take off over time.

So if there are problems, let us figure out how to proceed, whether you can revise the program or a new program. As I said, I am skeptical about a loan program that is structured to replace it, but we will work together.

HIRING

With respect to the problems in hiring, the personnel problems, we will look forward to discussing those with you privately, which I believe would be more appropriate, but clearly, that one, we have had a couple of thoughts like that in some of the other departments this committee is fortunate enough to fund, and for the life of me,

I cannot understand why people cannot count. I know it is complicated, but there are basic math skills that are needed.

HANF

Let me go back to your proposal for block granting for needy families. I have expressed my concerns. Clearly you recognize and we recognize that there has been some problems in the Section 8 program. Why should we convert it to a block grant program to the States? Would States be required to maintain the current Section 8 subsidy requirements in 801 of 30 percent? Why would this be good for Section 8 residents? So maybe you can share some of your thoughts on this.

Secretary MARTINEZ. Mr. Chairman, I think that those are all good questions, and questions we should address as we go forward in implementing legislation for something like this.

First of all, let me say that I find it troubling that what I think is basically a retail program should be managed from Washington. The fact that a fair market grant in a given community somewhere in America would have to have that fair market grant adjusted by an approval from Washington sometimes delays that process by 5 or 6 months, which is inevitably built into the bureaucracy of the Housing Authority and that of our own Department, and those things occur.

In addition to that, I believe that dealing with over 2,600 housing authorities on this particular program, versus dealing with 50 States, would ease the way we manage and the way we handle programs.

In addition to that, I believe by giving the States the local flexibility in the utilization of the housing vouchers, that a full utilization of our vouchers would be achieved. I, like you, am terribly troubled by the recurring problem with recapture because unfortunately, we find year after year that that money, as you all pointed out, is not necessarily just spent on housing and it is——

Senator BOND. Almost never. It gets raided. Everybody sees the pot of money and it goes to whatever happens to be hot at the time.

Secretary MARTINEZ. And so you know, I feel like, in any event, however we can fix that problem and put more money in the hands of the people who really need it, which is the intent of the Congress at the time that you appropriated it. So all of those reasons coming together, in addition to the fact, Mr. Chairman, that the intent of the welfare plan which the States are administering, would be a nice conduit for this program to also fit with.

The population of folks that the States are dealing with on the welfare roles or in their medical needs also have housing needs, and now we would put all of that together. It has had a good reception from a number of governors. I think that wound ensure that the money would be preserved for housing, that it would be preserved in the program, much like we now have it. I think all the safeguards that we would want in terms of eligibility or whatever else, I think would be built into the authorizing framework to make it a successful program.

But you know, I know from your experience as a former governor and your strong knowledge of the program, that I would really look forward to a dialogue on this on the shortcomings of this proposal,

and perhaps I could persuade you on helping us to make it better rather than just legislating that it does not work.

SECTION 8

Senator BOND. Clearly, we have to do some things about Section 8. We included, as I said, a change in the approach. The House had one view, we had a different view. I think what we came up with should be workable, we want to work with you to find out whether it is, because there is certainly enough problems in the area, and we have to see how this new fund works.

And I would like your comments on the approach we took for fiscal year 2003 and what steps HUD has taken to assure that HUD has adequate and reliable information to the numbers of vouchers as well as the number of additional vouchers that are likely to be used to obtain housing. We found this information in the past has not been reliable.

Secretary MARTINEZ. Mr. Chairman, I appreciate the new approach that has been taken. I think it is a step in the right direction and should help us to a fuller utilization of the Section 8 vouchers.

What I would like to do with the Chair's permission is to liberally rely on my Assistant Secretaries when you have specific questions, and I ask Assistant Secretary Liu to step up and perhaps address some of those.

Senator BOND. All right. Mr. Liu.

STATEMENT OF MICHAEL LIU

Mr. LIU. Good morning, Mr. Chairman. First of all, we welcome the fiscal year 2003 reforms as passed by Congress for the Section 8 program, and we think it is a step in the right direction for budgetary reform. As the Secretary has mentioned and I think as you have alluded to, there are still things that can be done so the program can make things work.

Specifically as to what we are doing as to implement the fiscal year 2003 proposals, I can assure you that when we first heard of the possibility, we started working to improve our reporting requirements because right now we have been faced with situation where under the best of circumstances they are a year, sometimes a year and a half old, which has compounded our problems. We are working toward refining existing systems, so we are not talking any new systems, but working with the existing systems to gather information on Section 8, to streamline the release of information and usage on a much more current realtime basis, and we are moving forward on that.

Senator BOND. I look forward to working with you on that.

I do have to go for the vote but let me raise one more thing, and that would be in GAO's report, the GAO asserts that errors in determining the amount of rental income from the Section 8 program has resulted in estimated excess of some $2 billion, or 11 percent of the funding in fiscal year 2001. $2 billion would be enough to pay for a new affordable housing production program. If that figure is accurate, the loss means that we really are missing some opportunities to utilize it. What are you doing to reduce that error rate, that overpayment?

Secretary MARTINEZ. Mr. Chairman, we have focused on this issue, and I would ask Assistant Secretary Liu to address the specifics.

Mr. LIU. We have aggressively worked to not only have legislation introduced to get new hires that we need, and hopefully that will pass. But not waiting simply for the legislation we have aggressively been trying to get agreements signed with States around the country to keep better track of wage and hiring information, which is key to our being able to keep track of the truth in terms of what is being required.

Senator BOND. Has the IRS given you any help in that?

Mr. LIU. We have talked to the IRS.

Senator BOND. The Committee will stand in recess until Senator Mikulski returns, and I will be back shortly thereafter.

HOPE VI

Senator MIKULSKI [presiding]. The Subcommittee will reconvene with the concurrence of Senator Bond, and I have a bipartisan responsibility I must attend to as close to 11:00 as I can.

As you can see, we have many commitments, Mr. Secretary, and we know you do as well. Senator Bond is voting and in the interest of your time and ours, I am just going to proceed.

I am going to start off my questions with HOPE VI, and we have had many private conversations on the topic. And second, I also want to thank you and your staff for supporting the study which resulted in a report on lessons learned on HOPE VI. They have completed study one, which I think raises some very significant issues related to the program, but also contains some suggestions, which I think will maximize this very great opportunity that I know you and I are committed to.

Second, there has been always the issues of relocation, where do they go, what happens to them?

And number three, is the focus now on buildings only, or also on the human development services. And remember, the goal is public housing, not a way of life but a way to a better life, and I think we should focus on that.

Now, could you tell us what you are thinking about in terms of HOPE VI, where do you want it to go once it is zeroed out? We are very concerned. This is $600 million that we could use.

Secretary MARTINEZ. Senator, I think the reason we are in this situation is that because of whatever issues did arise within the administration, that the process of developing an alternative did not keep pace with the budgetary cycle which required us to not fund it.

Let us say that our concern on HOPE VI is that we are studying this and we are looking to have many resources come together, people in the academic community who have looked at HOPE VI, in addition to practitioners in the development projects, mayors who have tried to revitalize urban areas, and pull together the best of all of that thinking as to how we should reauthorize a HOPE VI, or whatever we arrive at. We think that the mission of HOPE VI is not over.

I think what has occurred is that we had a 10-year program with a substantial amount of money. With this chart I would like to go

through where they are in terms of the opportunity and the spend-out, and again, it is not to be critical but only to point out to you that we do have a moment here to take a breath as we go forward into the future.

But as you see, in Chicago, there are people there that are doing a terrific job in revitalizing parts of that city, but you can see that there is still the signs where the spend-out is not——

Senator MIKULSKI. Mr. Secretary, my bifocals are not working.

Secretary MARTINEZ. Let me give you a little help, if I might, just to be casual if I may.

Basically we are looking at Chicago for instance; they have been awarded this much, they have only spent this little bit here so they still have a number of projects, they are going to be deferred to later.

Senator MIKULSKI. Let us go to St. Louis and Baltimore.

Secretary MARTINEZ. Baltimore actually has spent well over 50 percent of what they have been granted, so that is the good news, and St. Louis has a little bit less.

Senator MIKULSKI. So Mr. Secretary, we have spent a billion?

Secretary MARTINEZ. Baltimore has been the best relative to what was awarded.

Senator MIKULSKI. Let us look ahead to October 1, 2003, for the fiscal year. Where will we be with this? You indicated that there is money funded that local communities still will be completing their project on that is the completion owe money I got to complete it, so it is not like when it comes to October 1, it stops.

Secretary MARTINEZ. All of these projects, we will still bring them to completion.

Senator MIKULSKI. And then they——

Secretary MARTINEZ. At that point HUD would have to go through one more round of communities out there who today would be anticipating the possibility of doing a HOPE VI or trying to put a deal together or maybe some that were in the running this year but did not quite get to allocation, so next year there would be one more cycle of HOPE VI grants that we could issue, all of whom I hope is, and our challenge is to work with the communities who are doing a good job but who still have problems.

Senator MIKULSKI. Let us move on, because I do have to go. Here is what I am going to say. First of all as I understand HOPE VI, we spent a total, since the program was created a decade ago, over a billion dollars, and the results show there are successes here as well as lessons learned. I do not want to give up on the HOPE VI framework. I think what you have just said is you are asking for the opportunity to pull together a group of people who know the most about HOPE VI, which is the advocates who have had criticism, academics like the Urban Institute who have done studies on it, and the mayors who have to run it. And I think what you are asking for as we have this small window, is the opportunity to pull together a task force that could bring forth either a HOPE VI reform package or a new building on lessons learned, a new framework for legislation.

Secretary MARTINEZ. I would love to pull that kind of thing together. I would also seek the authority to also commit a funding package to go with it.

Senator MIKULSKI. I understand that and also that there is the authorization issue as well.

Secretary MARTINEZ. Correct. Something has to happen this year in any event.

Senator MIKULSKI. I would like to talk about a timetable. First of all, we asked HUD for a report that was due in June 2003 on the status of severely distressed units, we want to know what is left out there and the need.

There is a second need that is not related directly to HOPE VI but it is also important, and that is the backlog on public housing capital repair. That is both regular public housing—but I understand there is a huge backlog. I also do not know if it includes the housing for the elderly. Remember when I said that most of this housing was built in the 1970's and 1980's.

Secretary MARTINEZ. The 202's would not be included.

Senator MIKULSKI. So that is a whole other issue there.

Secretary MARTINEZ. Right.

Senator MIKULSKI. So really this is the program that was initiated by President Ford, it gained momentum under President Carter, it was one of the really signatures of the Reagan Administration, so this is really a bipartisan effort among the seniors.

I do not know that we want this to go to a commission, that requires presidential appointments and executive directors, et cetera, but I am going to ask you internally that you pull together a task force among the categories of stakeholders that you have just enumerated, and we will work with you on this to say where do we go next. And then bring this to the authorizers and we appropriators to see if we can do something this year so when the money in the pipeline runs out, we have a new framework. I really do not believe that President Bush, who I believe is a real conservative, wants to in fiscal year 2004, a presidential election year, have a program that just sputters out.

So much has been done on a truly bipartisan basis, let us now look at the new framework based on needs both of residents and the distressed housing, and also on the lessons learned and where we might need to be placing emphasis on human capital. So I really extend my hand to you in partnership to work on this. The only outcome I am interested in is to keep the framework, physical architecture that develops human capital, and people have a way of moving to a better life, just like welfare to work.

Secretary MARTINEZ. Alright.

PUBLIC HOUSING—ELDERLY/MINIMUM RENT

Senator MIKULSKI. I am very concerned about the issues related to the elderly housing and we would welcome your ideas on what we are doing and can do about housing for the elderly as well as in public housing.

Another issue with which I am concerned is public housing minimum rent. As I understand it, there are many residents that are going to be affected by this change. Could you tell me why HUD should determine minimum rents and not the local public housing authorities?

Secretary MARTINEZ. Senator, for a long time, housing authorities have, for the most part, determined a minimum rent, and in

fact today out of the 4 million families that are currently receiving Federal assistance, only 250,000 will be affected by this new minimum rent proposal, which is only about 8 percent of the families that are currently served by public housing.

So the idea is that, at a time when it is felt that a minimum rent of $50 would be something that all families who reside in public housing should be contributing, that it is appropriate to set out a place where all should go. What occurs often times is that if there is not some clarity on this, that on the one hand maybe minimum rents will go beyond $50, which is not appropriate in many cases, or that folks who next door may be making their $50 contribution have a neighbor who is equally able to make it or even better off and yet does not make it.

So our goal is to try to insure that there is some equity in this. Most housing authorities have a minimum rent fee today of $25 to $50. Over 50 percent of housing authorities have a $50 minimum rent, and so we believe that this is trying to create a little equity in public housing.

And also, this is teaching a certain responsibility because as you have said, it is not a way of life and there is no such thing as free rent. So if people have a sense of obligation to pay in some amount of their money for rent, it can begin to lead them to a path of self sufficiency and out of the public housing morass and into a life of their own.

Senator MIKULSKI. As you know, there are advocates who are very troubled by this. And local public housing authorities are troubled. I know Mr. Grazziano and the Baltimore folks are also troubled by this, and I would ask, number one, that you take a look at this decision and number two, consult with the local public housing authorities and see what they think about it.

And the thing we do not want to do with any of these policies is penalize the poor. I understand the need for responsibility, we encourage responsibility, but where there is some unexpected hardships like illness, they may not be able to pay.

Secretary MARTINEZ. Let me also say, I did not point this out, Senator, but the elderly and the disabled, of course, are exempt from the $50 rent, so it is only for the rest of the population.

FRAUD

Senator MIKULSKI. Let us go now to issues of fraud. I would like to bring up the issue that I talked about earlier.

Secretary MARTINEZ. Could I ask the Inspector General to join me?

Senator MIKULSKI. Yes.

First of all, I do find it commendable what you have been doing. We have had prosecutions, we have had indictments, and even jail sentences as well as FHA reform.

I am not going to name the company but we will share it with you privately, but it is a Utah based loan server. And what they do is they send false letters to home buyers telling them they were delinquent on their loans, that they were going to be foreclosed on their loans, and to send them money, when there was nothing wrong with the loan. People panicked and of course as you know, people will do anything not to lose their home.

What the TV station has identified, because people went to TV and the community law center, this company provides customer services but again, they are not the lender. The Community Law Center in Baltimore has received 90 complaints from the one same company. We do not know if any of these loans have FHA insurance on them. We do know that it is an approved FHA partner.

And so my questions would be number one, to ask both the Department and the FHA to look into this and Mr. Donohue, for you to look into this particular company to stop this, to identify what they are doing and to stop it, and to see if this is even going on in other parts of the country, because I do not believe they are a national company. And then we need to know if someone has been a victim, where should they go to get help. Do you want to comment, any of you, on this?

Secretary MARTINEZ. I have also Housing Commissioner Weicher.

Senator MIKULSKI. It just seems with flipping when we close 3 loopholes and the scammers and the scummers find 5 more. That is what a predator is.

STATEMENT OF KENNETH DONOHUE

Mr. DONOHUE. Senator, we became aware of some of these tactics in the midwest United States, and we have also seen, just to add to, we have seen additional types of activities of this sort. Such as global operations used to identify and target mortgages facing foreclosure, soliciting financing that involves high fee structures and charges that add to the cost of the loan and the price of the mortgage. We have found entities that pray upon mortgages that——

Senator MIKULSKI. Can you just tell me what we are going to do on it?

Mr. DONOHUE. We are aware of it, we are opening an investigation with regard to this matter, specifically to the matter at hand in Maryland.

Senator MIKULSKI. To the general issue or to this company as well?

Mr. DONOHUE. We are looking at the general issue and we are going to take a specific look at the matter that you have raised.

Senator MIKULSKI. Thank you very much. And I want to here more of your testimony, but I do have this obligation with Senator Frist. And I want to thank you for listening. Did you want to add something, Mr. Weicher?

STATEMENT OF JOHN C. WEICHER

Mr. WEICHER. Senator, simply that if these are FHA loans, and you indicated that that has not been established, if they are FHA loans, we do have the ability to intervene. We have loss mitigation requirements in the event borrowers are in fact delinquent. And we certainly have the ability to prevent foreclosures when borrowers are not delinquent.

Senator MIKULSKI. And I do not know if they are foreclosing. I just think they are sending scare letters. They are not a lender, they are providing so-called customer services, but they send scare letters and accept payments when there is no payment to be accepted. These are when loans are current, when loans are current.

Mr. WEICHER. If that is happening, I am not a lawyer, but to me that sounds like fraud and we would be certainly interested in sanctioning that entity insofar as it has FHA approval, and we would be certainly working with the IG.

Senator MIKULSKI. What I would like to suggest is that at the conclusion of this hearing, my staff present to you what we currently know about this, and second, I would ask that you contact the Community Law Center in Baltimore, they are energetic lawyers who have gotten 90 complaints from people. So they have kind of a documentation staff there, and someone could then see that.

If someone has received one of those, what should they do and where should they go? Or do you want to think about that and tell us?

Mr. DONOHUE. If I may. I would think that if it is a matter with regard to a violation of Federal law, I think they should contact us, or speak to the appropriate HUD Field Office—we work very closely in Baltimore with the FBI and U.S. attorney's office, any means to get that information to us or contact directly is fine.

Senator MIKULSKI. Well, what I would like you to understand is the specific method, and I would like you to really think about this, because we do need a method for them to either come to the Community Law Center or they come to you. So please think about it, so we can let these 90 people know, but I have a feeling that there are others out there.

Mr. Chairman, thank you. I hope we pursue this. And then second, where we are on all of these aspects related to predatory lending. And if they know we are on it, then it tends to have a chilling effect. So thank you very much.

Secretary MARTINEZ. You are very welcome.

PUBLIC HOUSING OPERATING FUND

Senator BOND. Thank you very much, Senator Mikulski. I think that your questions covered a number of the questions I had, so I am going to try to move on, and Mr. Secretary, I would also like to discuss with you in private what internal steps you have taken to ensure that the public housing operating fund over-expenditure does not happen again. We will talk about that in a one-on-one conversation.

FAITH-BASED ORGANIZATIONS

With respect to faith-based organizations, I understand HUD is revising a number of the regulations to make it easier for faith-based organizations to participate in HUD programs, including enhanced eligibility for grants. I strongly support the role of churches and other faith-based organizations in making our communities strong and safe, but there have been a number of news reports that infer that HUD is trying to divide churches and faith-based organizations with expanded access to Federal funds including grants to build churches where a church is involved with community issues.

What programs are involved, and is their truth about this providing grants for church construction, and how would you deal with this constitutional potential problem here?

Secretary MARTINEZ. Mr. Chairman, we have embraced the President's call to level the playing field for faith-based organiza-

tions to insure the full participation of the faith community in a lot of our programs and to insure that the regulations and other rulings of the game are fair, even, no matter what the program may be. We are in the process of finalizing some regulations which we hope will not have the conclusions that I think some of those news reports have reached.

We believe that if there is a building related to a church but not the church itself, which may be involved in a social service of some sort, that perhaps some funding for accommodating that work could be done, but we are going to try to be very clear that we stay away from any direct funding of church buildings, things of that nature. Houses of worship are different from places where social services may be rendered.

So we are looking very carefully at these regulations, they are not final. As we go forward, I think the caution that you have raised certainly needs to be kept in mind.

Senator BOND. I think it is important to steer that path very carefully, and I certainly endorse wholeheartedly the President's initiative.

PUBLIC HOUSING REINVESTMENT LOAN GUARANTEE INITIATIVE

Your budget request for new public housing loan guarantee program and $131 million in credit subsidy, according to the budget representation, this program will leverage some $2 billion in loans and accelerate capital improvements. That sounds like a fairly complex program for most PHAs.

How quickly do you think you could get it up and running, what do you think the cost of the actual per unit basis will be, and how will it compare with HOPE VI, what kind of tax credits are expected to be part of any financing? Mr. Liu?

Mr. LIU. Mr. Chairman, we certainly are excited about the public housing reinvestment loan guarantee initiative. We appreciate the concept of loan guarantees which was proposed by the chairman last year, because we think that credit enhancement has to be a key component for this concept of utilizing private sector debt financing to work.

We are building this program on the experience over the past 4 or 5 years where similar deals without credit enhancement have gone forward. Over the past 4 or 5 years and really mainly in the past 2 years, we have raised over $500 million through the debt markets, over 80 transactions of various sources, where capital fund grants have been used as either equity and/or as leveraged capital for bond deals, loans, and other situations.

We have done some analysis of cities where this tool might be used, and per unit costs ranged from $17,000 to $55,000. This is really in line with what we are doing now in rehabilitation and modernization use of the capital fund at this point in time. So we think that the program can be up and running fairly quickly. In fact, we have proposals already at the door from public housing authorities that are interested in being first in line should the concept move forward.

FHA

Senator BOND. All right, thank you. Let me turn now to an FHA question. According to the GAO 2003 high risk report on HUD, the FHA single family mortgage insurance program remains a high risk area because of continued weakness in the insurance process, evidence of fraud, and a variety of challenges that HUD faces in implementing correcting action. What steps are being taken by HUD to address these concerns?

Secretary MARTINEZ. The FHA Commissioner, Mr. Weicher, is going to address that, Mr. Chairman.

Mr. WEICHER. Yes, Mr. Chairman. We have taken a number of actions to address the problems of fraud and lender incompetence in our programs. Senator Mikulski alluded to our flipping rule. We have a series of rules in process, literally a dozen rules to address fraudulent or deceptive practices in FHA loans.

We established a program called Credit Watch where we track the loan performance of individual lenders to see how their loans are performing the first couple of years after origination, compared to other lenders in the market area. We know that if they are bad loans, the problems arise the first couple of years.

We originally set a threshold of 3 times the default rate for the market area as being grounds for sanction. We are in the process of lowering that quarter by quarter from 3 to 2¾, 2½, and by next fall, next October, it will be double. We are chasing out, removing their ability to do business with us, those lenders who show early default rates in excess of their market by a substantial amount unless they can provide some evidence that there is a reason for that.

We are in the process of extending that to appraisers, because you cannot really have a predatory loan without a bad appraisal, or corrupt appraisal. We have issued advance notice of proposed rule making on that program, we received comments, and we are in the process of developing a rule to put that into place.

We are moving on these and it shows up in the overall performance of the FHA funds as you alluded to in your opening remarks. We are having fewer claims, fewer losses, and that is one significant reason why our reserves are increasing.

Senator BOND. Okay. Let me ask you on your risk management, you launched a demo in 2002 known as the 2001 Accelerated Claim Disposition Program to reduce foreclosure losses. On October 31 last year, you awarded Salomon Brothers Realty a 70 percent equity interest in a joint venture to dispose of 5,100 nonperforming loans. HUD said this would help restructure the mortgage notes to improve performance. What is the status of that particular program?

Mr. WEICHER. This is the Section 601 demonstration authorized by Congress in, I believe, the 2000 Appropriations Act. We have, as you described, conducted that auction and made that transaction with Salomon Brothers, and we are in the process of providing loans to—and these are loans which have gone into default but which we have not had to foreclose and take title.

We pay a claim on the loan to Salomon Brothers. Salomon Brothers in turn takes the responsibility for management of the loan. There are a couple of purposes to this. One is that it is more cost

effective for us to sell the notes than to proceed to foreclosing, taking title and funding the property ourselves. The other is the private sector has more ways of avoiding a foreclosure than we do, the private sector can take it down on a partial basis and write down in ways that we cannot.

In conversations we have had with Salomon Brothers, they have indicated that over 70 percent of the families in these homes want to work with them on work-out programs. If they are able to make that work, then many of those families will remain in their homes, and they could not have remained in their homes if they had gone to claim with us, gone to foreclosure with us, and I think that is going to strengthen the communities, as Senator Mikulski stressed in her opening remarks, by keeping stability, keeping people in their homes.

ASSET CONTROL AREA DEMO

Senator BOND. Thank you. In last year's appropriations bill, we directed HUD to enter into contracts and agreements under the Asset Control Area demonstration program to design and promote home ownership. What is the current status of that?

Mr. WEICHER. We did, in fact, issue new procedures for the program on September 15 of last year. We actually issued two sets of procedures, one, the program as prescribed specifically by statute, and a second based on our experiences in the program under our pilot authority. We put together a program which seemed to us likely to work significantly better. We received a number of comments on the programs and a number of expressions of interest from individual communities.

We have received applications under the pilot program from Baltimore, Camden, Cleveland and Hartford. We have received expressions of interest and have had conversations with Rochester, Chicago and Los Angeles. All of those except Baltimore and Camden participated in the earlier program. We have revised our proposed procedures in light of conversations we had with many of these groups and we sent out letters saying we are ready to accept your application, we sent those out in late February and we expect that program will be fully operational soon.

Senator BOND. Why did it take so long?

Mr. WEICHER. We met the September 15 deadline. We then received comments from local organizations on a wide variety of issues, issues they wanted to have addressed, and we have been working to address those issues so we have a consistent program that would work.

Secretary MARTINEZ. One thing I would point out is that some of these programs that we have inherited, while well intended, sometimes do not have the built-in tools for us to properly monitor them like you would want us to do. So I think we wisely stopped the program when we felt that it just could not be managed in a way that would ensure good oversight and then restart them. I understand we may have taken a little longer than we should have in restarting it, but we put it back on track and allowed the communities to participate in them.

But the program we had which was littered with fraud and problems, since we have reinitiated it after stopping it for only 90 days,

I think is really being successful and is, in fact, fulfilling the promise of what it was intended to do, and we look forward to the same with this particular program.

INTERAGENCY COUNCIL ON HOMELESSNESS

Senator BOND. Mr. Secretary, you soon will be coming to the end of your term as Chairman of the Interagency Council on Homelessness. Our thanks for working with this Committee on resuscitating the Council, and hopefully you will continue to play a strong role.

Can you tell us what you think the Council accomplished during your chairmanship, and I would just ask you to address the efforts of the council, whether agencies such as VA and HHS have come forward with adequate resources.

Secretary MARTINEZ. Clearly the revitalization of the Council on Homelessness by this administration, I think is one very important step and milestone in the fight to end homelessness in America. We have taken the approach of attacking the chronic population as a way of attacking homelessness in general.

By dealing with the chronic population, the interagency council's focus on the chronic population, a program designed to deal with that population, and encouraging others to jump on that band wagon, has been one of the real successes of the program. We have cities now like Chicago who are embracing the concept of ending homelessness, ending chronic homelessness as a step to ending homelessness.

The Council was able to pull together the resources and the interests of HHS and VA, along with HUD, to do the Samaritan Grant program. We think this is an innovative approach which is going to allow us to deal with that chronic population in a way that allows them to be helped not just with shelter, but also with medical needs and the VA with all the programs that they do. The Samaritan program has a contribution of $10 million and $10 million from each of those two other departments, with HUD contributing $50 million from our budget.

We want a greater and fuller partnership because we do know that the chronic population oftentimes lacks medical care, has addiction problems and things of that nature.

Senator BOND. I have seen the figures on the addiction problem, and I would call Mr. Mangano forward to give us a brief update, if you would please. Welcome.

STATEMENT OF PHILIP MANGANO

Mr. MANGANO. The first thing I would like to say, Mr. Chairperson, is that it is really the personal and professional commitment and support of Secretary Martinez that has eased the revitalization of this council in this inaugural year of its existence, and I would say personally it has eased my own Baptism into the Federal Government. So I am very thankful to both Secretary Martinez and to his staff and even as I look at his staff here, every one of them has made a contribution to the well being of the council over the last year.

In the council, as Secretary Martinez indicated, we have developed some themes, and one of the key themes we have developed is prevention of homelessness. That has been something that has

been absent from Federal policy around homelessness in the past. So what have we really engaged in for the last 20 years? We have moved people out of homelessness, but more people have fallen in, and that has been the continuous saga. So a lot of the attention of this administration is on prevention and especially on, as Secretary Martinez indicated, the President's initiative and the Secretary's initiative to end chronic homelessness.

We know that the research indicates that 10 percent of the population consumes over 50 percent of the resources, and our hope is that by focusing on that population and ending that population's homelessness, there will be additional resources to address the homelessness of other populations of homeless people as well.

We are also looking to increase the access to mainstream resources on behalf of homeless people. A GAO report in 1999 indicated that the resources that are targeted for homeless people in the Federal budget are really insufficient, but that there are hundreds of billions of dollars of resources available in the mainstream programs. So we have been working, again, with HUD and HHS and VA and Labor and SSA, to ensure that better access is available to mainstream programs for homeless people.

ADDITIONAL COMMITTEE QUESTIONS

Senator BOND. Thank you. We appreciate your good work on it.

Mr. Secretary, anything you want to add? I have a few more questions but I am going to submit them for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

HOUSING ASSISTANCE FOR NEEDY FAMILIES

Question. Under the proposed funding formula and out-year estimates, how many vouchers would each State be able to fund under this formula? How does this compare to current year voucher use? How does this compare to the number of voucher contracts currently authorized for PHAs in each State assuming that tenants have no income?

Answer. Under HUD's proposal, the State would receive funding sufficient to at least cover all vouchers currently under lease through PHAs within the State. HUD believes that even more families will be assisted due to the ease with which States can utilize the funding. Full utilization will also help justify increases in funding.

HUD expects that lease-up and utilization of funds will increase as a result of the HANF reforms.

Under HUD's proposal any family currently receiving voucher rental assistance would continue to receive such assistance through 2009. HUD also anticipates States being able to serve even more families, both through efficiencies and additional funding.

Question. The administration is proposing to restructure the various Section 8 programs by creating a new Section 8 tenant-based voucher program that will be called the Housing Assistance for Needy Families program or HANF. HANF would be funded at some $12.5 billion in fiscal year 2004 and would transition to a block grant program to the States in fiscal year 2005.

HANF does not appear to be the best possible replacement for the existing voucher program. I have concerns that the funding levels may be inadequate to meet future voucher use and will burden States at a time when States are already facing significant budget shortfalls. Also, while we have not seen the proposed legislation, after the requirement that States maintain the rental subsidy for existing voucher holders, this program looks a lot like the HOME program.

Why should Congress convert the Section 8 program to a block grant program for States? What is the advantage for States? Why would this be good for Section 8 resi-

dents? What is HUD's responsibility under this proposed program? When will the legislation be submitted?

Answer. HUD and Congress share concerns that this key program is not functioning efficiently to the detriment of both needy families and the taxpayer. The tenant-based assistance program now provides rental and homeownership assistance to more than 1.8 million families. Despite this success, during the past several years, billions of dollars of funds appropriated for tenant-based assistance have remained unspent, and as a result several hundred thousand families have not been provided housing assistance made available by Congress.

The advantages to providing tenant-based housing assistance through a State-administered block grant are:

—increasing program flexibility so that funds are used promptly and effectively to assist needy families;

—facilitating greater program responsiveness to local markets and needs by delegating decision-making, such as setting rents, closer to the communities and families affected, by their elected officials;

—allowing flexibility at the State level for reallocation of funds or other actions that may be necessary so that program funds are expended promptly; and

—improving government support of self-sufficiency efforts by assisted families, by facilitating greater coordination with the TANF program and other State programs.

States would have control of the funding to directly address the housing needs of their low-income citizens. States would have the flexibility to ensure that the funds work effectively in their local housing markets. States would have the ability to reallocate the funds or take other actions that may be necessary so that program funds are expended promptly and meet the needs of low-income families in an efficient manner. States will also be able to better coordinate housing assistance with other State-run assistance programs to more effectively target resources and achieve self-sufficiency for those in need.

The program would be more flexible and would work more effectively in local housing markets in increasing housing opportunities for low-income families. Program rules would be greatly simplified, increasing landlord participation in the program. The program would be able to react much more quickly to fluctuations in local rental markets to ensure the subsidy is sufficient to allow families to find housing with the tenant-based assistance. Economic self-sufficiency and homeownership efforts by assisted families would receive greater support through better coordination with other State programs. Under the HANF program the Secretary will establish performance standards for States, including the improved living conditions for elderly and disabled families; the effectiveness of voucher assistance in helping families move toward homeownership and self-sufficiency; and the extent to which State or local governments remove barriers to affordable housing.

HUD is responsible for establishing performance standards for States that include funds utilization, financial management, number of families served, quality of housing, reduction of homelessness, improved living conditions for elderly and disabled families, the effectiveness of voucher assistance in helping families move toward homeownership and economic self-sufficiency, and the extent to which State or local governments remove barriers to affordable housing. HUD, also, is responsible for ensuring that States are administering the program in accordance with Federal law and program regulations and will review the State's performance report. Further, HUD will make such reviews and audits that are necessary to determine whether the State is carrying out the housing assistance activities and objectives in a timely and effective manner, and whether it has met any performance standards established by HUD for the program.

The legislation was introduced in the Senate on April 29, 2003.

Question. Will States be required to maintain the current Section 8 subsidy requirement that families pay no more than 30 percent of adjusted income?

Answer. The legislation proposes to greatly simplify the current income and rent calculations by eliminating the dozens of statutory and regulatory exemptions and deductions. HANF proposes that a family will not be required to pay more than 30 percent of gross income. They may elect to pay more, if they so choose.

SECTION 8 CERTIFICATE FUND

Question. As you know, the VA–HUD Fiscal Year 2003 Appropriations bill created a new funding structure for Section 8 vouchers where PHAs receive funding for all vouchers that are currently in use and for any vouchers that can be used up to a PHA's authorized level through a reserve fund maintained by HUD. This funding approach should result in a more realistic assessment of Section 8 funding needs

and reduce the need to go though the annual ritual of rescinding large amounts of unused, "excess" Section 8 assistance.

I would like your comments on this approach to funding Section 8 vouchers. Also, what steps is HUD taking to ensure that HUD has adequate and reliable information on the number of vouchers in use as well the number of additional vouchers that are likely to be used to obtain rental housing?

Answer. The funding methodology for vouchers introduced in the VA–HUD Fiscal Year 2003 Appropriations bill provides an improved method of providing public housing authorities PHAs with the appropriate level of funding required to manage the voucher program and meet current and future leasing requirements. The methodology also provides the Department current leasing and cost data to be used as a management tool necessary for efficient and effective program management in the following ways:

—significantly reduced program recaptures;
—realistic budget estimates provided to the Congress;
—improved funds control by the Department;
—timely identification of PHAs with poor utilization, to better target technical assistance resources; and
—early identification of the cost impact related to program policies for use in shaping future program policy decisions.

The Department has developed a data collection tool for PHAs to report monthly cost and lease-up levels. The data will be collected via internet transmission from PHAs and used by the Department to determine PHA renewal funding levels, administrative fees, and additional requirements from the Central Reserve. The first submission from PHAs requests actual data for the prior 6 months. Thereafter, the PHA is required to report to HUD quarterly. Renewal funding will be based on more current lease-up and costs identified by the PHA to ensure that the appropriate level of funding is provided to the PHA.

Prior to using the data to determine funding levels, the data will be reviewed using a series of quality control edits for accuracy and reasonableness. PHAs that do not comply with the data collection effort will have funding provided based on prior year leasing and costs. As per the law, failure to report on the administrative fee reserve balance will also prevent the PHA from receiving an administrative fee.

The data collection effort has been reviewed and approved by OMB as meeting the requirements of the Paperwork Reduction Act. To date, the following has occurred:

—PHAs have received advance notification of the new requirements.
—A PHA Focus Group was convened to test the data collection effort.
—Based on the comments of the Focus Group, FAQs have been developed to assist PHAs with reporting.
—A help desk has been established to assist PHAs.
—The website will be launched into production the week of March 24, with the results used to determine funds required for contracts expiring April 30, 2003.
—PHA industry groups have been consulted.

This data collection effort is the first step taken by the Department to ensure that the requirements of the Act are met. The Department will continue to work toward full automation in the coming year.

Question. As you know, my staff recommended that HUD update all Section 8 information as early as last October 2002. Identify all requests to PHAs for Section 8 utilization information in the last 7 months. (In the past much of this information has been unreliable.)

Answer. PHAs traditionally provide data on utilization to HUD with their year-end statements. PHA fiscal year ends cover the four calendar quarters. Therefore, HUD receives year-end information each quarter for a subset of PHAs.

The data collection tool described in the previous question requires that all PHAs provide data to HUD each quarter. This provides HUD with the updated information on utilization for the entire PHA inventory. The first data requested from PHAs was in March 2003, covering the period of July 2002 through January 2003. Going back to a 6-month period provides HUD with some historical information that can be used in trend analysis. The next update will be requested in May 2003, covering the period of February through April 2003. As you can see from the timeline, HUD's database of PHA information will be approximately 45 days behind, a major improvement over data approximately 12–15 months old.

HUD will continue on a cycle of quarterly requests for updates until the final automated system is complete that will require monthly updates from PHAs.

SECTION 8 RENTAL SUBSIDY OVERPAYMENTS

Question. According to GAO's most recent evaluation of HUD's Major Performance and Accountability Challenges, errors in determining the amount of rental assistance under HUD's Section 8 program has resulted in estimated excess rental payments of some $2 billion or 11 percent of the funding for the program in fiscal year 2001. Two billion dollars are enough to pay for a new affordable housing production program and is an unacceptable level of loss for this program. This has been a recurrent problem that has been repeatedly identified over then last 4 years and longer. What is HUD doing to reduce this fraud and abuse and recover these losses? What has HUD done in the last 12 months? In the last 6 months? How much money has been saved?

Answer. Under the President's Management Agenda, HUD has established a goal for reducing both the frequency of calculation/processing errors and the amount of overpayments by 50 percent by the year 2005 with interim goals of 30 percent by 2004 and 15 percent by 2003. These goals apply to all HUD's rental assistance programs, including Section 8 and public housing.

The Department's comprehensive plan for reducing all types of errors and improper payments is carried out through the following Rental Housing Integrity Improvement Project (RHIIP) initiatives: (1) statutory and regulatory simplification, including the Housing Assistance for Needy Families (HANF) proposal which reduces complex income requirements to a simple formula (up to 30 percent gross income); (2) increased HUD monitoring of program processing by HUD intermediaries, using risk-based targeting indicators; (3) increased use of automated sources of tenant income data to address the problem of unreported tenant incomes well as a legislative proposal for access to the National Directory of New Hires Data Base (HR 1030); (4) new Fact Sheets, guidebooks, training and technical assistance for HUD staff and program intermediaries; (5) stronger performance incentives and sanctions; (6) increased IG investigation of serious tenant fraud cases; and (7) an ongoing quality control program.

With respect to RHIIP initiatives for regulatory and statutory simplification, the HANF legislation proposes to greatly simplify the current income and rent calculations by eliminating the dozens of statutory and regulatory exemptions and deductions. HANF proposes that a family not be required to pay more than 30 percent of gross income. Under the proposed HANF program procedures will simplify and streamline the rent calculation process and greatly contribute to reducing the subsidy error. Also, with HANF, States will be motivated to use their own and new hires database to verify tenants' reported income.

Those RHIIPs initiatives implemented during the last 12 months are: (2) increased HUD monitoring of program processing by HUD intermediaries, using risk-based targeting indicators; (4) new Fact Sheets, guidebooks, training and technical assistance for HUD staff and program intermediaries; and (7) an ongoing quality control program. Those initiatives implemented during the last 6 months are: (1) statutory and regulatory simplification, including the HANF proposal which reduces complex income requirements to a simple formula (up to 30 percent gross income); (3) increased use of automated sources of tenant income data to address the problem of unreported tenant incomes well as a legislative proposal for access to the National Directory of New Hires Data Base (HR 1030); (5) stronger performance incentives and sanctions; and (6) increased IG investigation of serious tenant fraud cases.

The Quality Control Program (7) is the Department's approach for measuring the extent to which the above-mentioned goals are met. The measurement of 15 percent error reduction will be reflected in the fiscal year 2003 Performance and Accountability Report.

PUBLIC HOUSING OPERATING FUNDING

Question. As I previously stated, Mr. Liu, the Assistant Secretary for Public and Indian Housing, deserves a lot of credit for taking much needed corrective measures when senior HUD officials discovered that the Department has been inappropriately awarding PHAs with additional operating funds by raiding current year public housing operating funds for prior year obligations. The VA–HUD Fiscal Year 2003 Appropriations bill put a final stop to this activity while providing up to $250 million in funding for one last time for existing prior year obligations owed to a few PHAs for fiscal year 2003.

Nevertheless, how could this overspending happen and how could it happen without the awareness of the senior officials in the Department and OMB?

Answer. There are four main reasons why HUD overspending happened:

—HUD failed to develop a new accounting system to track the Interim Formula and should not have implemented the Interim Rule prior to doing so. Further,

the legacy system had been neglected for at least a year (2000–2001). So the lack of a system to track the interim formula made it very difficult to manage the program.

—No system and poor quality data meant that setting accurate funding levels, or proration levels, were set with old data, causing the level to be inappropriately high, which is what caused the shortfall.

—Culture among PIH staff was such that setting accurate funding levels was never imperative due to the common practice of using next year's funding to make up for any shortfall. Such decisions were apparently made without consulting senior management.

—Funding levels for each fiscal year had been established based on data at least a year old. HUD has changed this practice and will not commit to funding levels until all PHA budgets are submitted, accepted, and analyzed with regard to current appropriated amounts.

No senior officials outside of PIH knew about or had any role in the over commitment of funds.

Question. Identify all HUD officials that knew about this overspending and all corrective measures taken against these individuals.

Answer. The Deputy Assistant Secretary and Office Director managing the Operating Subsidy program are no longer in a management capacity, nor are they involved with the operating subsidy program. No office outside of PIH knew about or had any responsibility for the overage.

Question. What steps have you taken to ensure that this type of mistake does not happen again?

Answer. The Department has taken sound steps to ensure that the amounts provided in appropriations acts for a specific year will be spent only for that year's subsidies and that the commitments being made to PHAs never exceed the amounts provided by Congress. First, the Department has increased the number of resources available for this program, both in the terms of Federal employees and contractors and has created a separate task force to help specifically re-engineer this program in terms of business process and policy.

In addition, the Department has created a new budget collection and accounting tool, which captures that data in a format that allows for easier data analysis, adhoc reporting, and program oversight. This collection tool is currently being used for the collection and processing of the fiscal year 2003 data. Enhanced data and quality control checks are being used to ensure accuracy of the data. Full use of actual budget data will be used in the determination of the final proration factor—which will never be set again until HUD has collected all current year budgets and compared total eligibilities with current year funding.

Question. What steps has the Department taken in corrective measures against the staff who are responsible for these errors? Have staff been demoted? Have any of the responsible staff received bonuses for their work in the last year?

Answer. The Deputy Assistant Secretary and Office Director managing the Operating Subsidy program are no longer in a management capacity, nor are they involved with the Operating Subsidy program. None of the staff has received a bonus.

FAITH-BASED ORGANIZATIONS

Question. I understand that HUD is revising a number of regulations to make it easier for faith-based organizations to participate in HUD programs, including enhanced eligibility for grants. While I strongly support the role of churches and other faith-based organizations in making our communities strong and safe, there have been a number of news reports that infer that HUD is planning to provide churches and faith-based organizations with expanded access to Federal funds including grants to build churches where a church is involved with community issues.

What programs are we talking about and is there is any truth that HUD is looking to provide grants to churches for church construction? This would be very controversial and how is HUD dealing with the constitutional issues?

Answer. HUD has proposed a rule that would eliminate unwarranted barriers to faith-based organizations in eight HUD programs. The public comment period closed March 6, 2003, and HUD is currently reviewing the comments and preparing a final rule.

The eight programs affected by the rule are HOME Investment Partnerships; Community Development Block Grants; Hope for Homeownership (HOPE 3); Housing Opportunities for Persons with AIDS; Emergency Shelter Grants; Shelter Plus Care; Supportive Housing; and YouthBuild.

The proposed rule clarifies that HUD funds may not be used for the acquisition, construction, or rehabilitation of structures to the extent that those structures are

used for inherently religious activities such as worship, religious instruction, and proselytization. Where a structure is used for both eligible activities and inherently religious activities, HUD funds may not exceed the cost of the portion of the acquisition, construction, or rehabilitation attributable to eligible activities. HUD has at no time intended that its funds be used to acquire, construct, or rehabilitate sanctuaries and other structures used principally for worship, and it will clarify this intent further in the final rule.

PUBLIC HOUSING HOPE VI

Question. The Public Housing HOPE VI program has been eliminated under HUD's Budget Request for fiscal year 2004. This program was created in large part by this Subcommittee in response to the need to address the approximately 86,000 units that were termed severely distressed by the National Commission on Severely Distressed Public Housing in 1992. However, this program has done much more than just respond to distressed public housing, it has been tremendously valuable in turning this distressed housing into mixed income and public housing developments as well acting as an economic anchor for the redevelopment of distressed communities.

And while it may be time to move on and build on the successes of the HOPE VI program, I am concerned that we have not had a meaningful dialogue on what we have accomplished and need to do next.

The Department has eliminated the program in the Budget Request, including the funding of some $574 million which is critical funding needed to address the backlog of some $22 billion in capital needs. What does HUD believe is the next step?

Answer. The Department is preparing to launch a review initiative that will consist of a series of meetings with industry experts in the field of affordable housing. It is intended to seek advice from a wide range of experts and stakeholders about the state of the program and its future. We are currently working on the details, including meeting topics and participants. Second, the Department has executed a Cooperative Agreement with the Urban Institute to investigate alternative ways to maximize the amount of private capital that can be leveraged using Federal funds, investigate more efficient ways to deliver Federal funds, investigate ways to accelerate project completion and the construction of units, and assist in the development of a new definition for severely distressed.

Question. How does HUD currently define severely distressed public housing and how many units meet this definition now?

Answer. At this time, there are many ways to define severe distress. HUD has had to work with five different definitions of severe distress as provided in Sections 18, 24, and 202 of the 1937 U.S. Housing Act, the HOPE VI appropriations and the Commission of Severely Distressed Public Housing. Even the National Commission on Severely Distressed Public Housing acknowledged the difficulty in identifying, specifically, distressed projects and opted to only estimate the total number of distressed units nationwide rather do an inventory. We believe that a standard definition of severe distress must be agreed upon prior to an evaluation of the entire remaining inventory. The Department is currently working with the Urban Institute to assess, among other things, the various definitions and establish one standard that can be used Department-wide to analyze the entire inventory. Therefore, the Department does not have a mechanism to review the entire public housing inventory and determine how many units are severely distressed at this time.

Question. What criteria did the administration look at in determining this program had outlived its usefulness?

Answer. The Department provided Congress a report, "HOPE VI: Best Practices and Lessons Learned, 1992–2002," on June 15, 2002 which provided a comprehensive, factual, and balanced view of the program. The report provided information about what has been accomplished and what questions still remain to be answered. On balance, the Department believes that it has provided sufficient funds for the HOPE VI program to achieve its goals. HOPE VI has funded grants to relocate 57,000 families, demolish 77,000 units and build 85,000 of which 45,000 are public housing (as of March 31, 2003; fiscal years 1993–2001 grants). We believe the funds already provided, in conjunction with other public housing programs, have more than addressed the 86,000 severely distressed public housing units identified by the Commission. Our report correctly points out, however, that grantees have been slow to spend funds and rebuild housing. Of the $4.5 billion awarded in the past 10 years, PHAs have only spent $2 billion. Only 17 of 165 grants have built all their planned units. In addition, it is important to remember that PHAs have more tools available to them today than 10 years ago. For example, we now have regulations in place to guide mixed-finance developments and PHAs may use capital funds for

accelerated modernization. As of March 31, 2003, the Department has received requests to allow PHAs use Capital funds to collateralize and pay debt service on nearly $933 million, of which $482 million has been approved. Furthermore, the Department believes that the Public Housing Reinvestment Initiative (PHRI) is intended to provide a financing tool for housing authorities to prevent developments from becoming severely distressed. It's another development tool to assist PHAs in addressing the backlog and accrual needs. It's time to reassess how to move forward and find new, creative ways to revitalize public housing.

PUBLIC HOUSING CAPITAL FUND

Question. HUD is proposing some $70 million less in Public Housing Capital Funds for fiscal year 2004 than fiscal year 2003. In addition, the fiscal year 2004 funding request is some $200 million less than the fiscal year 2002 enacted level. These reductions are especially troubling when considered in conjunction with the administration's recommendation to eliminate the HOPE VI program and the fact that public housing throughout the country has a capitalization backlog of over $20 billion. These funding levels will likely result in deferred maintenance and deferred capital investment. How does HUD justify these reductions in funding?

Answer. For fiscal year 2004, the amount of the Public Housing Capital Fund accrual is estimated to be approximately $2.2 billion. However, the Department is requesting approximately $2.6 billion for the Public Housing Capital Fund, which is approximately $400 million more than fiscal year 2004 estimated accrual needs of $2.2 billion. Further, public housing agencies (PHAs) are encouraged to use other vehicles to address needed improvements. For example, PHAs are already permitted to leverage their Capital Funds to finance additional amounts needed to make improvements to existing public housing. Such tools have already leveraged approximately $800 million in the last few years. In addition, the Department proposes the Public Housing Reinvestment Initiative (PHRI) that will provide PHAs with further opportunities to address the physical condition of public housing.

Question. In addition, the HUD Fiscal Year 2004 Budget requests authority for a new Public Housing loan guarantee program and includes $131 million in credit subsidy from the Public Housing Capital Fund. According to HUD budget representations, this program will leverage some $2 billion in loans and accelerate capital improvements. This sounds like a fairly complex program for most PHAs. How quickly do you expect this program to get up and running? What do you expect the actual cost of this program to be on a per unit basis? How will it compare to HOPE VI? Will tax credits be expected to be part of any financing package?

Answer. It is also important to keep in mind that PHRI is voluntary for PHAs. No PHA will be forced to make use of this new tool. For those who do choose to participate, PHRI can be up and running in a matter of months. HUD is giving this initiative the highest priority and will begin preparations even as the proposal progresses in Congress. HUD has already had broad discussions with PHAs, their representatives, and others who would be involved, including potential lenders. Many PHAs have provided substantial expressions of interest in pursuing PHRI. Indeed, many are asking whether there is any way under current law to implement it. Unfortunately, there is not.

The "cost" of PHRI is simply the credit subsidy of $131 million, which comes from public housing capital funds. These funds are set aside to cover any losses resulting from the 80 percent loan guarantee and are based on a credit reform analysis by the Office of Management and Budget. Otherwise, PHRI is not designed to produce any budgetary impact. Rather, public housing subsidies are merely converted into Section 8 subsidies to facilitate financing. While PHAs, with HUD review and approval, have issued debt secured by public housing capital funds, these transactions are not property-based. Thus, the debt service coverage they require limits the amount of debt a PHA can issue. Borrowing under PHRI would not be limited to that degree.

Both PHRI and HOPE VI are programs designed to aid PHAs with renovating public housing stock, however, the operation and focus of these two programs are different. HOPE VI is a competitive grant program directed at enabling PHAs to revitalize severely distressed developments, while PHRI is a voluntary loan guarantee program that enables PHAs to access conventional financing to address their backlog of capital repair needs.

Under the HOPE VI application process, PHAs are scored on their ability to leverage private and public sector financing in the form of tax credit equity, loans, or other grants which will augment their HOPE VI request. The total financing package together with HOPE VI is the amount necessary to address revitalization needs which often encompass an array of public housing and community service projects.

PHRI provides PHAs the ability to access adequate mortgage financing based on projected and specific cost and income analysis for targeted properties. The 80 percent loan guarantee provides the credit enhancement lenders seek before making investments.

HOPE VI rewards some PHAs for seeking private/public sector leveraging; PHRI provides the means to leverage a PHA's greatest asset—its housing stock and thus addresses required repairs across the entire inventory of public housing.

The loan guarantee is structured to permit private financing raised through PHRI to be supplemented by other resources including tax credits. However, in many instances, tax credits would not be required for PHRI to finance sufficient capital needed to address backlog needs. There may be instances where tax credit equity may be necessary to enable a PHA to cover the debt service associated with the financing required to address the current and long-term capital needs of selected properties.

Question. Doesn't this proposal just shift the cost of public housing from the Public Housing Operating and Capital Funds to the Section 8 Fund? Why not tie the costs for loan repayments to the Public Housing Capital and Operating Funds?

Answer. When a PHA obtains capital financing using the PHRI loan guarantee, PHAs voluntarily select properties to be converted from public housing contracts to project-based voucher funded contracts. For PHAs that choose to participate in this program, PHAs could commit capital and operating funds for initial expenses during the first year of the project-based voucher contract. After the first year, the reliance will be on the income and financing stream made possible by the PHRI.

There are currently tools to access Capital Funds to undertake modernization projects, namely the Capital Fund Bond Financing Program. This has been a very successful leveraging mechanism, which has generated close to $500 million in bond financing for approximately 20 PHAs. But even this successful program will take many years to address the estimated $18 billion backlog of capital needs. PHRI has the potential to reach a wide variety of public housing developments in a project-specific manner. It can be a powerful mechanism to help identify those developments most in need of additional assistance.

PHRI and the associated loan guarantee is a more feasible property-based financing tool that is more typical of multifamily rental financing. In these financial transactions, the rents from the property and a mortgage on the property are pledged as security for a loan. Additionally, the Section 8 contract, subject to annual renewals, provides security with which lenders are more familiar.

STAFFING

Question. While the Congress was finishing up the fiscal year 2003 Omnibus Appropriations bill, the House and Senate VA–HUD Appropriations Subcommittees were advised that HUD exceeded its stated employee levels for fiscal year 2003 by upwards of 300 FTEs with a cost of some $30 million that is not reflected in the HUD Fiscal Year 2003 Budget Justifications and Budget Request. These hirings occurred during the Spring and Summer of 2002 and, despite the significant impact on HUD's budget needs for fiscal year 2003, HUD never once made any attempt to inform the Congress of its decision to hire significantly more staff than provided for in the HUD fiscal year 2003 Budget Justifications. In fact, HUD only reported these staff increases when it determined that its Fiscal Year 2003 Budget Request for Salaries and Expenses could not support these added staff.

There also are significant questions as to whether HUD comported with existing staffing requirements and hiring procedures, including requirements consistent with HUD's Resource Estimation and Allocation Process (REAP). It also appears that some HUD offices hired significantly more staff than needed while other offices hired significantly less staff than needed. This clearly raises questions as to whether there were top level management controls on this hiring spree.

Has HUD reviewed these hiring actions?

Answer. Yes, a thorough review of the hiring actions has been completed and a Corrective Action Plan has been developed. This Plan is being submitted to the House and Senate Subcommittees under separate cover.

Question. To what extent do these hiring decisions comport with personnel requirements?

Answer. HUD has undertaken a thorough review of all hiring actions and has determined that there were no violations of any Federal civil service laws, rules, regulations, and merit system principles.

Question. To what extent do these hiring decisions comport with REAP?

Answer. REAP was not used as a basis for hiring. The Corrective Action Plan requires that each program bring their individual offices into alignment with REAP

analyses as well as achieve an overall REAP-based ceiling. This Plan has been submitted to Congress under separate cover.

Question. What steps is HUD taking to ensure that similar hiring binges do not occur in the future?

Answer. Yes, a thorough review of the hiring actions has been completed and a Corrective Action Plan has been developed. This Plan is being submitted to the House and Senate Subcommittees under separate cover.

Question. Are the responsible officials being held accountable for this hiring problem and in what way?

Answer. Yes, responsible parties are being held fully accountable. Corrective actions are in place to ensure over-hiring is not repeated. The Corrective Action Plan will freeze all program offices who are currently over ceiling. The programs will need to align their offices with the REAP analyses.

LACK OF AFFORDABLE HOUSING

Question. There is a lack of affordable housing in many communities throughout the country, especially for extremely low-income families (those at or below 30 percent of median income). Vouchers do not work well in these communities and housing is too expensive to build to assist many of these low-income families. While I support a block grant production program to address these needs, I am willing to look at other approaches such as tax options, interest rate buy-down approaches and loan guarantees or a combination of these approaches. I do not think the proposed HANF proposal will work as currently proposed or funded. How would you get at this need for affordable housing for extremely low-income families?

Answer. The Department is confident that the HANF program will work but remains open to consider other options towards addressing the lack of affordable housing in communities.

GAO HIGH RISK—FHA SINGLE FAMILY INSURANCE

Question. According to GAO's January 2003 High Risk Report on HUD, the FHA single family mortgage insurance programs remain a high-risk area because of continued weaknesses in the mortgage insurance process, evidence of fraud and the variety of challenges that HUD faces in implementing corrective actions. What steps is HUD taking to address these concerns?

Answer. The Department is attacking these weaknesses on two fronts: adopting technological advances to limit HUD's exposure to fraud and misrepresentation and engaging in substantial rule-making to protect HUD and the borrowers it serves from predatory lending practices.

In May 2002, HUD completed a business process reengineering effort on its Single Family Mortgage operations. From this work, HUD identified a number of tools that can be employed to limit exposure, including those that provide estimates of the property's appraised value and alert lenders and the Department of recent property transfer, i.e., "flipped" properties. In addition, to combat identity theft, HUD has been studying various kinds of name and social security number verification tools that can be obtained directly from the Social Security Administration.

Predatory lending practices affect FHA's insurance risk and contribute to community deterioration. To combat such practices, HUD has published a number of rules to reduce the possibility that unwitting and unsuspecting homebuyers and homeowners will become victims of unscrupulous lenders abetted by appraiser collusion. Soon, FHA will no longer insure properties re-sold within 90 days, and will require additional evidence of the property's appraised value if the resale (within 1 year) price exceeds a certain threshold. FHA has also published rules that will make the lender equally accountable for the quality of the appraisal, and require that appraisers meet specific qualification standards in order to make appraisals for FHA insured mortgages.

FHA SINGLE FAMILY MORTGAGE INSURANCE

Question. I am concerned that FHA single family mortgage insurance tends to take the highest risk of default despite currently exceeding actuarial requirements. What is the current rate of default on FHA single family mortgage insurance? How does this compare to the private market? At what point does a downturn in the economy put the Mutual Mortgage Insurance Fund at risk of failing to meet its actuarial floor?

Answer. FHA's total default rate reached 5.276 percent in March 2003. At the same time, FHA's claim rate was an annualized 1.246 percent, which is only slightly above its 10-year average of 1.08 percent. FHA has a higher default rate than the conventional market, but a lower default rate than the subprime market. Compared

to the conventional market, FHA serves borrowers with lower incomes, poorer credit histories, and fewer assets. FHA's capital ratio has continued to grow as the share of first-time and minority homebuyers with FHA-insured purchase mortgages has increased.

In pursuit of its mission to serve first-time and minority homebuyers, FHA reached out to riskier borrowers. These borrowers are more vulnerable to temporary economic setbacks and are more likely, compared to less risky borrowers, to go in and out of default. To assist these borrowers to avoid foreclosure, FHA offers incentives to servicers who practice loss mitigation. By providing borrowers with forbearance and tailored repayment plans, loan modifications, and soft second mortgages, servicers assist borrowers to remain in their homes. Last year, they helped over 68,000 homeowners—up from 50,000 the year before.

While these families are in the loss mitigation program, they are counted as defaults. So FHA's default rate appears higher. But the claim rate has not risen commensurately. Most loss mitigations are successful—two-thirds result in the owner catching up on the mortgage and staying in the house. The program is cost effective—FHA spends about $1,400 per loss mitigation effort, and saves approximately $30,000 every time and avoids a foreclosure.

As reported in the Actuarial Review of FHA's Mutual Mortgage Insurance (MMI) Fund for fiscal year 2002, the performance of the FHA's books of business, measured by the economic value of the MMI Fund, is affected by changes in economic variables. Higher mortgage interest rates raise initial and ongoing payment burdens on household cash flows and claim risks of new originations while decreasing the risk of claims on older loans with below-market interest rates. Lower mortgage interest rates have the reverse effect and tend to accelerate refinancing of earlier originations while increasing insurance claims. Faster average house price growth facilitates the accumulation of home equity, which tends to reduce the likelihood of a claim. It also contributes to greater mobility and household asset portfolio rebalancing, leading to greater turnover of housing and refinancing, thereby increasing prepayment rates. Faster income growth reduces the relative burden of mortgage payments on household cash flows over time, reducing the risk of claims as mortgages mature.

FHA's actuaries projected that under 5 economic scenarios (baseline, low house price appreciation, high interest rates, high unemployment/low personal income, and using 2001 selected loss rates) the Fund will exceed the capital ratio target of 2 percent.

ASSET CONTROL AREAS

Question. Under the Fiscal Year 2002 Supplemental Appropriations Act, HUD was required to enter into new contracts and agreements under the Asset Control Area Demonstration program no later than September 15, 2002. This is an important program designed to promote homeownership in distressed communities. What is the current status of this program?

Answer. On September 15, 2002, via written correspondence, HUD informed former Asset Control Area (ACA) program participants of the terms of the revised ACA program. At that time, former participants also received a chart comparing the Congressionally mandated Program (i.e., Program A which tracks to Section 602) to Program B which tracks to requirements delineated in Section 204(g). They were asked to submit an application for the previous demonstration program, Program A, or Program B, the revised ACA Program. Although HUD is fully prepared to implement both programs, the feedback received from most of our former participants indicated that Program B was the preferred program; however, several former participants requested further policy changes to make this program more effective.

From the end of October 2002 to December 2002, HUD held numerous conference calls and meetings with former program participants to discuss their additional recommended changes for the ACA Program. We were asked to consider revising: (1) our demolition policy; (2) the way we administered the Officer and Teacher Next Door Program in conjunction with the ACAs; (3) the resale price/the percentage of allowable net development costs; (4) the Census data used to determine revitalization areas (i.e., use 2000 data); and (5) our definition of eligible buyers for the purpose of disposing of multi-use and mixed-use properties; and (6) the requirement for all properties to be sold to income eligible buyers (i.e., participants wanted to be allowed to administer a lease purchase program).

During this period, HUD continued to maintain a good rapport with former participants, and offered assistance with our newly expanded ACA application process. Likewise, potential new program participants were given information about the new ACA Program and encouraged to apply. As a result, HUD received seven applica-

tions from new and former ACA program participants. While the HOCs reviewed these applications and worked with participants to obtain missing documents needed to complete the application process, the headquarters' ACA team developed operational procedures to accommodate the suggested policy changes.

In February 2003, former and potential program participants received a letter indicating the final terms of the new ACA Program with the changes highlighted. HUD offered broader latitude in each of the six areas identified above. Currently, HUD is reviewing all six applications and requesting additional documents as required. Concurrently, HUD is requesting that specific areas be identified for the proposed ACAs. Contract language is being modified to incorporate recently agreed to changes. Other concurrent actions include final internal review of draft regulations, completion of an OMB-required Front End Risk Assessment, and updates to HUD's internal standard operating procedures.

FHA MULTIFAMILY AND SINGLE FAMILY CONTRACTOR ACCOUNTABILITY

Question. GAO has indicated that HUD has poor control over its FHA multifamily and single family contractor payment accountability. Please provide an assessment of FHA versus private sector costs associated with single family and multifamily asset control. In other words, what is the per unit cost in the private sector versus FHA of foreclosed housing, both single family and multifamily? Please identify the individual costs associated with all units in the FHA foreclosed multifamily housing inventory. What steps has HUD taken to reduce costs in the last 2 years? What savings have been achieved?

Answer. *Multifamily*.—The Secretary is required by statute to manage and dispose of HUD-held mortgages or HUD-owned multifamily properties in a manner, that among other goals, preserves certain housing so that it can remain available to and affordable by low-income persons; preserves and revitalizes residential neighborhoods, maintains existing stock in decent, safe and sanitary condition; minimizes the involuntary displacement of tenants, and minimizes the need to demolish multifamily housing.

Because of these statutory objectives to maintain and preserve low-income housing resources, the Department's multifamily disposition program is significantly dissimilar to private sector objectives at the time of default or foreclosure of private sector rental housing. Because of the statutory mandates, the Department undertakes repairs to preserve occupied mortgagee-in-possession or HUD-owned multifamily properties. Further, it requires purchasers of many properties, either at foreclosure or HUD-owned sales, to repair and maintain properties as affordable rental housing resources via recorded deed restrictions. All of these actions have a significant impact on the value of these properties at foreclosure or HUD-owned sales and consequently the ultimate return to the Department of the defaulted amount of the FHA insured mortgage or HUD debt.

The preservation and maintenance of these properties is accomplished through the use of area-wide property management service contracts. These contracts are procured on a national, competitive basis. Contracts are awarded on the basis of experience and competency to perform the required management tasks and reasonable price.

The Department's oversight of managed contracts is conducted in several ways. Upon the Department's operational takeover of a property, the property is assigned to a property management contractor. The property manager performs a repair needs assessment and develops an operational budget for the property. One of the Department's two multifamily property disposition centers performs an analysis of the repair assessment and the operational budget and approves, modifies or rejects the proposals, as appropriate. Thereafter, the management and operation of the property is dictated by the approved repair plan and the operating budget for the property.

At the property level, the property manager is required to obtain competitive quotes or bids, as required, to engage in any contracting for services or repairs. Accurate and complete records for all contracting services are required to be maintained by the property managers. All activities must be within the approved budget for the property. Finally, the Department's property disposition centers have an oversight contractor whose services include the comprehensive and detailed review and oversight of the property managers' maintenance and management of the properties. The oversight contractor performs on-site reviews of operational activities/expenditures performed by the property managers against file records and site inspections of actual work performed.

The Department has taken a very aggressive position on expediting the processing of foreclosure and HUD-owned property sales. By reducing the time in the fore-

closure process, where most properties are not making mortgage payments, the Department is able to obtain whatever value remains on the property at the foreclosure sale and eliminate additional expenditures if the Department is mortgagee-in-possession. Similarly, expediting the sale of HUD-owned properties, the Department is able to curtail at an early date funds that may have to be expended on the property above rental income. This management strategy for the foreclosure/HUD-owned inventory has reduced the HUD-owned inventory from approximately 60 properties to 26 properties over the last 2 fiscal years.

The Department does not track private sector foreclosure or lender owned inventory sales. Because there was no Departmental involvement in those transactions, we would have no authority to obtain any of that information. Further, because the Department's foreclosure and HUD-owned inventory sales are required to meet numerous statutory goals and objectives versus private sector unrestricted transactions, the comparison would be difficult, if not impossible to assess two dissimilar transactions.

Single Family.—HUD has been able to increase the net return that we realize on the sale of HUD properties over the past 3 years. In fiscal year 2000, single family property sales numbered 80,628 at a total value of $4.343 billion (average sales price of $53,865) representing a recovery rate of 62.9 percent. In fiscal year 2001, single family property sales numbered 63,581 at a total value of $3.708 billion (average sales price of $58,319) representing a recovery rate of 66.8 percent. In fiscal year 2002, single family property sales numbered 59,736 at a total value of $3.801 billion (average sales price of $63,630) representing a recovery rate of 71.2 percent.

There is no publicly available source of information on asset disposition costs of private sector institutions, such as Fannie Mae and Freddie Mac. Moreover, even if daily holding costs were made public for these institutions, it would be difficult to compare them to FHA holding costs without knowing exactly what cost items were included. In other words, there is no single agreed-upon definition of holding costs in this context.

The Department has done a number of things to be proactive in its sales program. First, HUD has been offering sales incentives to encourage owner-occupant purchasers to buy its properties. HUD and its Management and Marketing Contractors perform outreach to communities to encourage their participation in our sales program.

HUD has established performance standards and developed tighter management controls for its management and marketing contractors to ensure that compliance with contract requirements are adhered to. Property conditions have improved since implementation of these standards.

Question. Please identify over the last 5 years, the number of foreclosed FHA multifamily housing units and the loss per year per unit. Please identify over the last 5 years, the number of foreclosed FHA single-family housing units and the loss per year per unit per State. Please identify over the last 5 years, the number of foreclosed FHA multifamily housing units and the loss per year per unit.

Answer. The Department has provided the chart below that indicates by calendar year, the net loss based on number of foreclosed units where HUD has become the property owner.

Calendar year	Net profit or (loss) acquisition plus holding costs	Units	Income or (loss) per unit
1998	($208,484,235)	5,693	($36,621)
1999	(93,221,230)	3,833	(24,321)
2000	(102,336,898)	3,166	(32,324)
2001	(148,544,223)	4,418	(33,623)
2002	(135,544,682)	2,621	(51,715)
2003 Year to Date 5/1/2003	(165,551,410)	1,571	(105,380)

The Department has provided the chart below that indicates the number of foreclosed FHA Single-Family housing units, the average loss per year, per unit and per State.

State	1998		1999		2000		2001		2002	
	Units acquired	Avg. loss/unit	Units acquired	Avg. loss/unit	Units acquired	Avg. loss/unit	Units acquired	Avg. loss/unit	Units acquired	Avg. loss/unit
AK	79	$26,506	79	$32,059	82	$38,493	72	$33,443	76	$39,231
AL	723	$15,106	802	$17,955	890	$20,968	1,072	$22,059	1,441	$24,196
AR	745	$18,793	757	$19,622	780	$20,946	836	$21,303	858	$21,969
AZ	1,311	$11,529	1,192	$15,179	953	$17,150	1,008	$13,737	1,481	$16,831
CA	22,666	$42,741	19,002	$38,687	14,398	$33,215	9,210	$24,645	6,243	$18,683
CO	418	$14,210	526	$15,098	423	$21,381	393	$21,763	696	$27,693
CT	1,101	$66,540	971	$56,236	811	$49,870	630	$43,929	552	$33,893
DC	289	$54,354	292	$54,365	265	$62,230	204	$60,564	149	$38,596
DE	104	$36,380	134	$35,813	138	$37,108	145	$31,193	131	$25,102
FL	7,366	$23,200	7,119	$24,231	6,671	$22,983	5,564	$18,588	5,504	$16,958
GA	2,360	$16,720	2,038	$18,333	1,878	$18,230	1,971	$18,101	2,748	$21,213
GU	0	(1)	2	(1)	0	(1)	5	$77,786	7	$81,262
HI	194	$84,520	295	$92,765	466	$91,216	363	$81,530	247	$64,306
IA	129	$14,785	113	$13,162	139	$19,907	163	$21,231	292	$23,774
ID	249	$22,456	309	$25,340	358	$25,873	381	$25,265	532	$26,835
IL	2,852	$42,198	2,978	$39,844	2,952	$39,612	2,375	$35,842	3,047	$30,595
IN	1,027	$23,053	1,251	$23,864	1,377	$25,842	1,669	$29,106	2,453	$32,121
KS	441	$19,500	487	$19,598	431	$20,516	378	$20,533	621	$21,327
KY	168	$19,739	241	$19,974	270	$22,861	316	$22,571	459	$27,077
LA	842	$20,118	835	$20,889	824	$21,024	1,054	$20,842	1,228	$23,280
MA	422	$56,825	426	$44,347	295	$41,358	191	$34,367	176	$24,620
MD	3,143	$41,193	4,104	$44,518	3,775	$49,429	3,452	$43,663	3,449	$33,650
ME	127	$47,637	125	$44,582	152	$43,105	94	$34,124	103	$31,210
MI	1,246	$16,113	1,067	$17,001	1,057	$19,269	1,215	$22,235	1,859	$26,593
MN	1,091	$17,585	759	$14,441	436	$12,417	292	$12,006	291	$16,040
MO	1,206	$22,170	1,281	$21,754	1,155	$21,027	1,084	$20,365	1,496	$22,989
MS	537	$15,281	557	$16,865	615	$18,082	669	$21,033	793	$20,740
MT	102	$17,966	143	$22,004	133	$25,359	132	$25,963	184	$26,462
NC	760	$16,345	737	$17,675	817	$18,458	882	$21,545	1,462	$25,575
ND	85	$22,443	95	$21,352	96	$22,158	88	$23,646	110	$25,275
NE	147	$13,187	152	$14,669	176	$18,043	190	$19,353	338	$21,644
NH	72	$37,819	78	$35,476	43	$29,850	22	$22,414	31	$19,272
NJ	1,721	$53,531	2,031	$52,850	2,301	$50,446	2,010	$43,931	1,871	$35,393
NM	206	$20,758	338	$25,517	419	$26,800	513	$28,110	622	$29,784
NV	859	$14,383	1,129	$20,249	1,126	$26,376	1,152	$25,020	1,440	$23,627
NY	3,207	$49,408	3,380	$52,135	3,967	$51,535	3,452	$47,229	3,520	$43,040
OH	1,571	$26,331	1,489	$28,046	1,661	$30,333	1,781	$32,275	2,312	$34,653

OK	825	$18,946	929	$15,857	863	$19,535	914	$18,842	1,083	$21,884
OR	102	$21,663	180	$19,409	249	$26,599	343	$27,874	555	$27,799
PA	2,026	$37,809	2,272	$38,554	2,435	$41,183	2,252	$40,126	2,643	$36,158
PR	103	$15,503	76	$15,532	152	$16,167	112	$12,689	159	$10,632
RI	235	$56,414	203	$44,728	202	$45,307	101	$33,135	72	$14,335
SC	553	$22,313	536	$20,958	564	$20,547	489	$20,700	583	$23,186
SD	84	$30,553	82	$26,116	86	$21,780	54	$26,628	59	$27,282
TN	1,504	$17,153	1,694	$17,693	1,620	$19,892	1,893	$20,685	2,562	$24,386
TX	5,261	$18,700	5,257	$17,565	4,714	$16,360	4,214	$16,921	5,675	$21,602
UT	192	$17,209	391	$24,689	530	$30,079	749	$29,030	1,365	$36,083
VA	3,377	$28,653	3,003	$28,846	2,670	$29,281	2,089	$22,937	1,738	$21,378
VI	0	([1])	5	([1])	8	$47,907	7	$64,722	4	$72,287
VT	32	$61,037	25	$50,990	29	$42,263	15	$39,634	16	$41,273
WA	596	$26,862	715	$24,015	790	$29,490	799	$27,887	1,356	$29,268
WI	189	$23,057	170	$24,562	242	$26,600	257	$24,182	289	$27,558
WV	77	$17,610	74	$20,245	63	$26,111	77	$25,655	89	$25,669
WY	88	$18,515	133	$20,098	126	$23,521	121	$20,924	96	$19,662
TOTAL	74,008	$32,166	73,059	$31,311	67,591	$31,380	59,514	$28,430	67,166	$26,151

[1] No sales.

ITAG/OTAG

Question. The HUD IG was required to audit all recipients of technical assistance under the Mark-to-Market program and determine whether each recipient was in compliance with the required uses of such assistance. Under Section 1303 of the fiscal year 2002 Defense Appropriations Act, HUD is prohibited from providing any additional HUD funding for 4 years to any recipient who misused such technical assistance. The HUD IG has identified some 10 instances of abuse. What steps has HUD taken in response to these determinations?

Answer. The IG published its report on March 31, 2003, and the Department is in the process of implementing the required sanctions specified in Section 1303 of the Defense Appropriations Act of fiscal year 2002.

NEW YORK DISASTER ASSISTANCE FUNDS

Question. NY/NYC was provided some $3.5 billion in CDBG Disaster Assistance funds for economic rebuilding efforts in response to the 9/11 terrorist attacks on New York City. The Empire State Development Corporation (ESDC) was charged with the administration of these funds. What steps has HUD taken to ensure these funds have been used in a manner consistent with the funding agreements?

Answer. HUD is taking a number of steps to ensure that the Community Development Block Grant disaster funds for New York are used in a manner consistent with the funding agreement, appropriations statutes, and waivers and alternative requirements granted and established for the use of those funds.

HUD program staff conducts management/compliance reviews of ESDC and Lower Manhattan Development Corporation (LMDC) approximately every 6 months. Reviews of ESDC were conducted in May 2002 and January 2003, and a review of LMDC was conducted in October 2002; the next review of LMDC is planned for late April 2003. In addition, HUD program staff maintains almost daily contact with the grantees either on-site or via telephone and e-mail to provide oversight and technical guidance, and HUD monitors grantee expenditures through HUD's Line of Credit Control System. HUD reviews independent audits of the grantees, as well. Grantees submit quarterly progress reports to HUD via a web-based Disaster Recovery Grant Reporting system that are used in HUD's submission of quarterly reports to the Appropriations Committees.

Also, HUD's Office of the Inspector General submits its reviews of those grants to the Congress in its semi-annual reports.

CDBG FORMULA FUNDING

Question. I understand that HUD is looking to revise the CDBG funding formula to allocate more funds to poorer communities and those in distress. What sort of issues is the Department looking at while performing this analysis?

Answer. The Department is committed to doing a CDBG formula study of the effects of adding all the 2000 Census data and considering options to change the formula factors to ensure that the formula continues to be highly targeted to need and community distress. The first phase will be done shortly, probably in spring of 2003. The second component, which is more complex, will be done in the fall. The second phase is more complex because HUD must develop a basis to explore how effectively the targeting is working for the vast majority of grantees. All aspects of the current formula will be considered, possible new factors and combination of factors as well as how the basic formula is constructed. In developing the CDBG dual formula and assessing the effect of the 1980 and 1990 Census on how the formula allocated funds, the Department has compared per capita allocations to CDBG jurisdictions relative to a broad-based measure of community need. This measure includes indicators of social, economic, and housing needs. The study currently underway will be similar to those done periodically since the mid-1970's. In addition, this year's study will consider the effect of the revisions to the definitions of metropolitan areas, since they affect CDBG eligibility and the distribution of funds.

RURAL HOUSING AND ECONOMIC DEVELOPMENT PROGRAM

Question. The HUD Budget request again eliminates the Rural Housing and Economic Development program. This is a small $25 million program that makes a tremendous difference for small, rural communities. It has been estimated that over the last 2 fiscal years, some 4,000 jobs have been created and over 8,200 persons have been trained. In addition, over 2,200 housing units have been constructed with some 3,700 units rehabilitated. In the last year, 367 businesses have been created and 1,400 existing businesses assisted. This is a good program that makes a dif-

ference with a small price tag and big results. Since this program works and HUD has expertise different from the RDA, why eliminate this program?

Answer. There will be $100 million available in fiscal year 2004 for the Rural Strategic Investment Grant Program in USDA pursuant to Section 6030 of the Farm Security and Rural Investment Act of 2002, Public Law 107–171. This new program will "provide rural communities with flexible resources to develop comprehensive, collaborative and locally based strategic planning processes; and will implement innovative community and economic development strategies that optimize regional competitive advantages." These are activities that clearly mirror those in HUD's program. HUD's fiscal year 2004 Budget proposal to terminate the Rural Housing and Economic Development Program reflects the existence of duplicative HUD and U.S. Department of Agriculture (USDA) efforts and the fact that USDA has far greater resources in this area.

In addition, USDA manages a portfolio of rural housing grant programs and economic development grant programs. USDA's current rural development portfolio vastly exceeds HUD's Rural Housing and Economic Development Program in terms of programs and services from budgets to staffing. The rural housing grant programs are the Rural Housing Assistance Program, the Rural Housing Voucher Program, and the Mutual and Self-Help Housing Program. The economic development grant programs are the Rural Development Enterprise Program and the Rural Business Opportunity Program.

SECTION 8 PROJECT-BASED ASSISTANCE

Question. I remain concerned about the administration's longstanding commitment to Section 8 vouchers to the detriment of preserving Section 8 project-based housing especially in tight rental markets. Over the last 3 years, how many projects and units have opted out of the Section 8 project-based program with the tenants converting to Section 8 tenant-based assistance?

Answer. During the past 3 fiscal years, Section 8 opt-outs are estimated at:

Fiscal year	Contracts	Units
2000	254	10,256
2001	224	9,496
2002 (prelim) [1]	169	7,487

[1] The Office of Housing is currently conducting its annual verification survey of potential opt outs. Results of the survey may vary from the estimated, fiscal year 2002 numbers shown above.

Question. How many of these projects have been elderly projects or designated for persons with disabilities? How many projects and units have opted to stay in the program? How many of these projects have been elderly projects or designated for persons with disabilities? How many projects and units have opted to stay in the program?

Answer. Within these totals, opt outs of projects targeted to the elderly or disabled were:

Fiscal year	Contracts	Units
2000	30	1,519
2001	41	1,201
2002 (prelim) [1]	20	876

[1] The Office of Housing is currently conducting its annual verification survey of potential opt-outs. Results of the survey will be available in late spring, and may vary from the preliminary figures shown above.

During fiscal years 2000–2002, 10,742 contracts (782,427 units) were processed for renewal and are still active. This includes 4,347 contracts and 318,804 units targeted for the elderly or disabled.

HOMELESS ASSISTANCE

Question. HUD Budget Request indicates that HUD will be submitting a legislative proposal to block grant or consolidate the McKinney-Vento homeless assistance grant program. I support this approach assuming there is adequate oversight and accountability. Nevertheless, since the current programs work much like a block grant, what significant changes will the Department be proposing?

Answer. Our current homeless programs are all competitive, with the exception of the Emergency Shelter Grant (ESG) program. The proposed consolidation of the competitive programs is intended to make the funds more flexible and get the available funds to the communities that need them more efficiently. The new program

will serve all homeless population, not just particular ones. The program will have a single menu of eligible activities not different menus of activities for different projects. The new program will emphasize and provide more permanent housing and will allow new emphasis on homelessness prevention efforts.

Question. When can we expect this proposed legislation for our consideration?

Answer. The Department is currently developing legislation which will be submitted to Congress in the coming weeks.

MARK-TO-MARKET

Question. The Section 8 Mark-to-Market program was enacted to provide a mechanism to reduce the cost of oversubsidized, expiring Section 8 contracts to market rents while preserving this housing as affordable, low-income housing. How much Section 8 funding has actually been saved since the beginning of the program?

Answer. Section 8 savings from the beginning of the program to March 1, 2003 are approximately $180 million. The Present Value of the future stream of savings from M2M restructures already completed is $1.4 billion.

Question. How many projects have been preserved with Section 8 project-based contracts?

Answer. As of March 1, 2003, 1,579 properties with a total of 131,551 units have been preserved through the Mark-to-Market program.

Question. How many projects have been removed from the Section 8 inventory by owners who opted out of their Section 8 project-based contracts?

Answer. Since fiscal year 1999, 74 properties, with a total of 4,157 units in the Mark-to-Market program, have opted-out of Section 8 project-based contracts.

NATIVE AMERICAN HOUSING BLOCK GRANTS

Question. The Native American Housing Block Grant fund has been largely flat funded at some $650 million since its inception. How many low-income units have been preserved with these funds? How many new units are created each year with these funds?

Answer. The Native American Housing Assistance and Self-Determination Act of 1996, as amended (NAHASDA), provides funds through the Native American Housing Block Grant (NAHBG) Program to Indian tribes or their tribally designated housing entities (collectively "grant recipients"). Grant recipients assist eligible low-income Native American families through NAHASDA's six affordable housing activities. Beginning in fiscal year 1998, the first year that funds were appropriated under the IHBG Program, through fiscal year 2001, the 4 years for which data is available, grant recipients have provided assistance designed to preserve the viability of, on average, 53,463 units each fiscal year. This information differs from the information previously reported due to the collection of more accurate data obtained from the Annual Performance Reports (APR) submitted by grant recipients.

The unit count includes moderate or substantial rehabilitation, and modernization and operating assistance related to units currently in management. It does not include other eligible affordable housing activities under the NAHBG, such as down payment and buy down assistance, minor rehabilitation of under $5,000, housing services, housing management services, crime prevention and safety, and model activities. The total does include Section 8-type programs operated by a grant recipient.

Using the 4 years of NAHBG funding data available, on average, 2,536 units have been created each year. Fiscal year 2002 figures are incomplete as of this date because grant recipients' fiscal years vary from tribe to tribe, and APRs are not required to be submitted until 90 days after the end of a grant recipient's fiscal year. The Department will submit information on the first two quarters when it becomes available.

Under the NAHBG Program, grant recipients are involved in a much wider variety of programs and projects, often using innovative, leveraged and mixed financing. Unit totals are not currently available to track these initiatives and projects.

PUERTO RICO PUBLIC HOUSING AUTHORITY

Question. What is the current status of the Puerto Rico Housing Authority (PRPHA)? This has been the most troubled PHA in the country over the last decade. I know there has been a lot of progress made. What is the status now?

Answer. The PRPHA has been making steady progress during the past 2 years in procurement and other areas. Examples of the progressive initiatives that PRPHA has taken are as follows:

—The PRPHA received a clean audit for the first time for fiscal year ending June 30, 2002.

—The procurement review of December 2002 showed significant improvement and no major procurement deficiencies.
—Management decisions to comply with OIG recommendations in Report 00–AT–201–1801 are closed.
—Management decisions to comply with recommendations in OIG Report 00–AT–201–1003 are closed with the exception of those coded J and recommendations 1A and 1B. For these, the termination date was extended to August 2003.
—The PRPHA began implementation of a 2-year pilot project to transfer management of public housing projects to four municipalities. This new initiative is in partnership with municipalities to determine new alternatives for management of public housing. All partners signed a Memorandum of Understanding on February 28, 2003. Four contracts have been signed with the Municipalities of Caguas, Carolina, Manati, and Guaynabo.
—In July, HUD will be providing on-site training and program reviews to these four municipalities. The PRPHA completed the negotiations with Management Agents by the first week of May as scheduled. Report on negotiations and recommendations on contracts with Management Agents should be reviewed by the Bid Board and the PRPHA Board of Directors in their meetings the end of June and beginning of July for appropriate action. To date, two contracts have been cancelled and management of those areas reorganized at substantial savings to PRPHA. Preliminary agreements have been reached with four other Management Agents for renegotiated contracts with lower management fees.
—Executed an agreement to return to PRPHA control of the HOPE VI Program that was put under receivership by HUD on July 6, 2001.

FINANCIAL MANAGEMENT AND INFORMATION SYSTEMS

Question. IT has been a priority for Congress to the extent that recent VA–HUD Appropriations bills have segregated IT funds to ensure the funds are not raided for other purposes. What is the status of HUD's IT systems and when will they be fully up and running and compatible?

Answer. The administration requested and Congress has approved a change in the mechanism for funding the Working Capital Fund (WCF). This change was important for a number of reasons, including the need to begin funding the maintenance of existing systems and the development of new Department-wide systems from a central account rather than the previous process of taxing those program offices which had the authority to transfer funds to the WCF. A number of HUD programs could not legally transfer funds without specific authority in annual appropriations bills.

The Appropriations of the central WCF activities then leaves program offices with the authority to transfer funds to the WCF only for the activities which directly benefit the program and especially the grantees. In doing this we have ensured that program funds are not raided to pay for Department-wide activities and that central activities and systems, such as the central accounting system HUDCAPS is adequately funded through the review and approval process in appropriations acts. Hence this segregation of IT funds between central activities and program specific activities, in the administration's view, will work to strengthen the distinct functionalities of each.

The IT plan called for by Report language in the 2003 Appropriations Act which was submitted to the House and Senate Appropriations staff on December 15, 2002 and again on March 19, 2003. Specifically cites the status of each IT project that is under development. A third submission which will include the information in the OMB 300 submissions and the full life cycle costs and timeframe for each major project (about 40) will be submitted to the Congress mid-June, 2003.

QUESTION SUBMITTED BY SENATOR CONRAD BURNS

ELIMINATION OF THE RURAL HOUSING AND ECONOMIC DEVELOPMENT PROGRAM

Question. Does the Department of Agriculture Budget compensate for the elimination of the HUD Rural Housing and Economic Development Program? If so, why?

Answer. There will be $100 million available in fiscal year 2004 for the Rural Strategic Investment Grant Program in USDA pursuant to Section 6030 of the Farm Security and Rural Investment Act of 2002, Public Law 107–171. This new program will "provide rural communities with flexible resources to develop comprehensive, collaborative and locally based strategic planning processes; and will implement innovative community and economic development strategies that optimize regional competitive advantages." These are activities that clearly mirror those in

HUD's program. HUD's fiscal year 2004 Budget proposal to terminate the Rural Housing and Economic Development Program reflects the existence of duplicative HUD and U.S. Department of Agriculture (USDA) efforts and the fact that USDA has far greater resources in this area.

In addition, USDA manages a portfolio of rural housing grant programs and economic development grant programs. USDA's current rural development portfolio vastly exceeds HUD's Rural Housing and Economic Development Program in terms of programs and services from budgets to staffing. The rural housing grant programs are the Rural Housing Assistance Program, the Rural Housing Voucher Program, and the Mutual and Self-Help Housing Program and the Rural Business Opportunity Program.

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

SAMARITAN INITIATIVE

Question. Mr. Secretary, HUD's proposed fiscal year 2004 budget includes a $50 million request for the President's "Samaritan Initiative" to move toward ending chronic homelessness over the next decade. This proposal builds on efforts by this Subcommittee in recent years to push the Federal response on homelessness in this very direction—setting a minimum threshold within McKinney-Vento for permanent supportive housing, ensuring stable funding for Shelter Plus Care renewals and pushing greater Federal interagency collaboration for funding of services to chronically homeless individuals. Your budget proposal includes a reference to an unspecified commitment for $10 million each in fiscal year 2004 from both HHS and the VA toward services funding as part of the Samaritan Initiative.

Can you identify for the Subcommittee from where within the budgets of HHS and the VA these funds will be coming?

Answer. HHS funds will come from both the Substance Abuse and Mental Health Services Administration (SAMHSA) for substance abuse treatment, mental health and related supportive services and from the Health Resources and Services Administration (HRSA) for primary health care services. VA funds will come from its Medical Care appropriation to enable local VA facilities to address the specific needs of chronically homeless veterans.

Question. What role do you envision the Interagency Council on Homelessness playing in allocating these funds?

Answer. The funds being requested for the Samaritan Housing Program, if approved, would be included in the applicable appropriations bills of HUD, HHS and VA and, therefore, would become the responsibility of these agencies to administer. However, there is no question that all three agencies would actively collaborate among themselves as well as consult with the Interagency Council on Homelessness to ensure that the program was established and operated in a coordinated and effective manner.

SECTION 811 HOUSING FOR THE DISABLED

Question. Mr. Secretary, the administration is requesting $251 million for the Section 811 program for people with disabilities for fiscal year 2004. This represents an $8 million reduction from fiscal year 2003 funding. However, according to estimates included in your own budget proposal, renewal of all expiring 811 "mainstream" tenant-based rent subsidies will cost $42 million in fiscal year 2004 ($10 million more than in fiscal year 2003). In addition, renewal of expiring 811 project-based subsidies (known as PRACs) are estimated to cost $8 million ($2 million more than in fiscal year 2003). This appears to increase the proposed reduction to the 811 program to at least $18 million if measured in terms of production of new units for people with disabilities. Further, this renewal burden associated with the 811 program is expected to continue growing in the coming years, consuming an ever greater percentage of the program, severely undermining 811's role as a production program.

The administration's budget contains an unspecified proposal to fold Section 811 into the Samaritan Chronic Homeless Initiative. This appears to be at odds with the targeting requirements for Section 811 that have been established by Congress, i.e. to direct resources to non-elderly people with severe disabilities that need housing related supports to live in the community. While this can include people with disabilities experiencing chronic homelessness, it also includes individuals that are in transition from institutional settings (nursing homes, psychiatric hospitals) or adults living with aging parents that can no longer provide care at home.

Does HUD have an estimate of the reduced number of new production units and new vouchers under the 811 that would result under the administration's budget?

Answer. The estimates included in the Department's Budget reflects that the number of Section 811 units awarded in fiscal year 2004 would be 1,749. The number assumed to be awarded in fiscal year 2003 is 1,804. That is about a 3 percent decrease in the number of units awarded with the same level of appropriations. However, these estimates do not include additional units that may be awarded using recaptures from prior years or from revised estimates of the amount of new appropriations needed for renewals. We have found that in many cases, higher than expected balances remain on contracts approaching expiration. These additional funds can be used to offset the impact of renewal costs.

Question. Does HUD have a plan to deal with the rising burden associated with renewal of project-based and tenant-based subsidies under the 811 program?

Answer. Within the amounts that are made available in future years, the Department is committed to maximizing the level of assistance available to eligible families. The Department has underway an aggressive and comprehensive effort to move greater numbers of projects to completion and occupancy as quickly as possible. This effort is also identifying amounts that can be recaptured from projects that cannot make reasonable progress so that these funds can be applied to additional awards. Over the next few years, these efforts should increase the pace by which additional units are brought into service. Ultimately, however, additional funding will be required each year to continue the current level of newly constructed units and, at the same time, renew expiring contracts.

Question. What measures might be taken to account for this 811 renewal burden as Congress has done for Shelter Plus Care?

Answer. Renewal of expiring rental assistance contracts is an integral aspect of the Section 811 housing program as it is for the Shelter Plus Care program. In both cases, funding of renewals is priority within the amounts appropriated in the account.

Question. Can you please describe for the Committee how HUD's proposal for integrating 811 into the Samaritan Initiative would impact current targeting requirements for 811?

Answer. The Department has a pending budget request of $50 million for the Samaritan Housing Program in fiscal year 2004, in addition to the $251 million requested for the Section 811 program. For the fiscal year 2004 Section 811 grant awards, the Department is proposing a preference for applications that address those disabled fitting the profile of people at risk of homelessness. This effort to prevent homelessness is intended to complement the Samaritan program's focus on addressing the critical needs of those experiencing chronic homelessness. The details on how the new preference will be incorporated into existing Section 811 selection criteria will be developed in the next several months based on discussions with all interested parties.

METROPOLITAN STATISTICAL AREA

Question. Mr. Secretary, although New Mexico is considered one of the Nation's poorest States, there is an odd problem in the Santa Fe and Los Alamos areas with regard to qualifying for HUD assistance. HUD currently combines these two New Mexico cities into one Metropolitan Statistical Area or MSA. Although at one time this practice was a benefit to both communities, it has now become a hindrance to their ability to receive HUD assistance in meeting actual local housing needs.

As it is today, Los Alamos County median income is over twice as high as Santa Fe County, about $82,000 to $40,000. This disparity clearly has negative impacts in both counties for housing assistance when Fair Market Rents (FMR) are calculated and then averaged for this single MSA.

By artificially raising median incomes in one county, Santa Fe, and lowering it in the other, Los Alamos, neither community has housing assistance targeted to their real incomes.

One solution, as has been attempted in the State of New York, is to remove the distortion be separating the affected communities from their shared MSA. I am attempting to do just that through a piece of legislation introduced a few weeks ago.

Do you believe that such a legislative fix would adequately solve this dilemma?

Answer. Separating the counties of Los Alamos and Santa Fe from a shared MSA would reduce the distortions in income and rent calculations for HUD programs. Currently, Santa Fe County benefits from the higher income and higher rents of Los Alamos County. More people could be served in Santa Fe County with lower FMRs, and lower income limits will ensure that the needy receive housing services. How-

ever, in Los Alamos, the reverse will occur. A substantially higher FMR for Los Alamos will mean that there will be fewer people served.

HUD follows the OMB definition of metropolitan areas. New OMB definitions will be released this summer, and the Department will bring the issue to their attention.

SECTION 811 HOUSING FOR THE DISABLED

Question. Would separating Los Alamos and Santa Fe from a shared MSA remove the distortions and allow more people to receive the assistance they need?

Answer. No. Breaking out the two areas would have no impact in the Section 811 distribution. Allocations are done by State or State portion within a field office jurisdiction; consistent with the requirements of 24 CFR 791 and the Section 202 and 811 program requirements. Second, the allocations for Section 811 are not done separately for metropolitan versus non-metropolitan areas. Third, and more importantly, given the level of funding in total, New Mexico's "fair share" in fiscal year 2002 would have been only 10 units (based on the minimum number of units set aside for each office). However, since the New Mexico Office is not a Multifamily Program Center, its development functions are under the jurisdiction of the Ft. Worth Office. Under the Ft. Worth Office's jurisdiction, the sponsors applying to develop Section 202 and Section 811 units in New Mexico had the ability to compete for 45 units of assistance in fiscal year 2002 rather than the 10 units if New Mexico was advertised separately.

NAHASDA FUNDING

Question. Mr. Secretary, I serve a State with over 20 Indian tribes including 19 pueblos and the Navajo Nation. Many of their members live in substandard housing due to economic circumstances facing the tribes. Providing adequate housing for low-income individuals and families is one of the primary tenets of your Department. It is also one tool the Federal Government has for meeting the spirit of its trust responsibility for the tribes.

One powerful tool in our belts is the Native American Housing Assistance and Self-Determination Act of 1996, otherwise referred to as NAHASDA. NAHASDA has been a great boon to the Indian people through its consolidation of prior housing programs and allocation of block grants to the tribes.

That tool, however, seems dulled of late. While the program has led to heartening developments in Indian country, many still wait for adequate housing. It is estimated that over 200,000 housing units are required to meet current needs. While funding for this program is high—at a requested $646.6 million—it has not increased in many years. Inflation and population growth have eaten away at the real value of this money. Perhaps in this round of appropriations we can do something about that.

First, is it fair to say that the real money value of the NAHASDA funds has decreased due to its stagnation and the pressures of inflation and population growth?

Answer. Yes, it would be fair to say this.

Question. In order to combat this situation, would appropriating $700 million for fiscal year 2004 begin to address some of the desperate housing needs in Indian Country?

Answer. The NAHASDA program has made significant improvements in its program delivery and tracking of accomplishments. Grant recipients assist eligible low-income Native American families residing on Indian reservations, in the Pueblos, in Alaska Native Villages, and in other traditional Indian areas. Using NAHASDA's six affordable housing activities, Indian tribes and their tribally designated housing entities (TDHE) create housing opportunities for eligible low-income Native American families.

Beginning in fiscal year 1998, the first year that funds were appropriated under the NAHBG Program, through fiscal year 2001, the 4 years for which data is available, grant recipients have provided assistance designed to preserve the viability of, on average, 53,463 units each fiscal year. The unit count includes moderate or substantial rehabilitation, and modernization and operating assistance related to units currently in management.

Using the 4 years of NAHBG funding data available, on average, 2,536 units have been created each year. Under the NAHBG Program, grant recipients are involved in a much wider variety of programs and projects, often using innovative, leveraged and mixed financing. These activities stretch NAHBG dollars and result in increased housing assistance for Native American families.

The 2004 Budget request provides sufficient funding to implement the administration's goals to address the housing needs in Indian country.

QUESTIONS SUBMITTED BY SENATOR MIKE DEWINE

OUTREACH AND TECHNICAL ASSISTANCE GRANTS

Question. Mr. Secretary, I am very thankful for all the great work that your organization has done. As I am sure you are aware, the Outreach and Technical Assistance Grants (OTAG) have played a valuable role in permitting housing organizations to hold many community outreach events including regional and State-wide meetings of housing organizations, HUD, local officials and non-profit developers to stay informed about HUD program and coordinate their efforts to preserve and improve housing in their local communities.

I understand that several organizations have not passed their audits of this program and that this is not uncommon. As a result of these findings, HUD has suspended the work of these organizations and is delaying issuing a Notice of Fund Availability on the basis that the audit findings are not resolved.

I am concerned that HUD's delay in resolving these audits is jeopardizing the future of this valuable program. What are your intentions for the program and how do you plan to deal with this situation?

Answer. The consolidated audit report was published on March 31, 2003, and the Department is currently implementing the management decisions associated with these findings.

Regarding the future funding of Section 514 Grants, the Department has committed to perform a Comprehensive Management Review of the administration of the Section 514 Grant process, including the deficiencies identified by the Inspector General in the recent audit reports. After this review is completed and appropriate program safeguards are incorporated into the program, the Department will be in a position to consider new opportunities for funding under Section 514.

GSE OVERSIGHT

Question. Mr. Secretary, Congress passed legislation in 1992 requiring that HUD review all new programs that Fannie Mae and Freddie Mac are considering before they enter into those programs. In the past decade, that law has been all but ignored. I know you are committed to full implementation of laws duly passed. What are you doing to ensure that a pre-clearance mechanism is established?

Answer. The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA) mandated that the Department review the GSEs' activities for approval in all instances that meet the statutory definition of a new program. As I stated during the recent budget hearing, I take this responsibility seriously. It is my belief that the Department must provide the level of new program oversight envisioned by Congress when it enacted FHEFSSA in order to ensure that new programs initiated by the GSEs are consistent with their charters and public mission. To achieve this objective, I have directed my staff to thoroughly review the Department's current regulatory procedures in an effort to promote more efficient and effective regulation.

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

NEW LEAD-BASED PAINT ABATEMENT PROGRAM

Question. In the Public Law 108–7, the Committee created a new lead based paint abatement program and appropriated $50 million for the program. Please provide the following information in regards to this program:

How is the Department collecting the data required to determine which areas meet the criteria for "highest lead based paint abatement needs" as set forth in the Public Law 108–7?

Answer. The Department is requiring that all applicants for these grants report to HUD the total number of documented cases of lead-poisoned children from the most recent calendar year for which data are available and the number of pre-1940 rental units within the relevant jurisdiction. HUD will be working with the CDC and Prevention to conduct quality control on the data submitted by applicants on lead poisoned children. The Department will also compare reported numbers of units to 2000 Census data for quality control. HUD will publish these data in its progress report to the Committee on March 1, 2004 or earlier, as required. In addition, HUD will publish in the Notice of Funding Availability data from the U.S. Census showing the 100 areas with the highest number of pre-1940 rental units.

Question. How many jurisdictions qualify for grants under this program?

Answer. Approximately 100 areas are eligible for grants. These areas are identified in an Appendix to the NOFA.

Question. When will the Department issue a NOFA for this program? When does the Department expect to make awards?

Answer. The NOFA will be published in May 2003. The Department expects to make awards no later than September 2003.

Question. How will the Department monitor the outputs and outcomes of grant awards?

Answer. The Department will track both expenditures and number of units made lead safe through its web-based data system, which helps the Department ensure compliance with the terms and conditions of the grant agreement. In 2004, HUD will also be conducting another national survey of the prevalence of lead-based paint in U.S. housing to measure the impact of this program and other lead hazard control efforts in reducing the number of units with lead-based paint hazards. Previous HUD studies showed that the number of housing units with lead-based paint declined from 64 million in 1990 to 38 million in 2000 (See Jacobs et al., "The Prevalence of Lead-Based Paint Hazards in U.S. Housing," Environ Health Perspect 110:A599–606, October 2002). In addition, HUD will be working with the CDC to quantify the decline in the number of lead poisoned children through the National Health and Nutrition Examination Survey, which showed that the number of lead poisoned children declined from 890,000 in the mid-1990's to 434,000 in 1999–2000.

HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS (HOPWA)

Question. Of the $290,000,000 appropriated to the HOPWA program, how many of the funds are expected to renew existing grants? How many grants does this represent?

Answer. HOPWA competitive programs constitute 10 percent of program funds. In fiscal year 2003, HUD has available $28.811 million to award for HOPWA projects to be selected under the criteria published in the Department's SuperNOFA. As required by the Appropriation Act, HUD will give priority to the selection of competitive grants that provide permanent supportive housing and meet all program requirements. Selections will be made later this year after the receipt of applications and completion of the Department's review of these applications. It cannot be determined which winning applications will renew existing grants until the competitive process is completed.

HOPWA competitive grants are funded for up to a 3-year operating periods. As such, many projects operate for their intended 3-year use period and are likely to seek additional funding to continue program operations. Beginning in fiscal year 2001, the Appropriation Act required that HUD give priority to the renewal of existing projects that meet program requirements. In fiscal year 2002, the renewal requirement specified that projects that provided permanent supportive housing receive priority in the selection process. In those competitions, HUD established the review criteria in the Department's SuperNOFA process. At the completion of these prior competitions, most of the available funding was awarded to renew existing projects, for 22 of 25 projects selected in 2001, and for 14 of 28 projects selected in 2002. In 2001, 3 new projects were selected and in 2002, 11 new projects were selected for funding along with three transitional housing projects that receive funding to continue those efforts.

There are nine grantees operating under fiscal year 1999 awards and 21 grantees operating under fiscal year 2000 awards, which would constitute the likely groups of applicants for renewal requests. Based on prior experience, HUD does not expect that all of these projects will seek renewal funding in this period or qualify for selection under the published criteria as projects that provide permanent supportive housing, since some involve transitional housing activities.

HOPWA RENEWED GRANTEES

Question. Please provide a list of these grantees, and a brief explanation of what each grant is being used for.

Answer. The list of these grantees with brief descriptions of their existing grant is listed below:

Housing Opportunities for Persons with HIV/AIDS (HOPWA)

1999 Competitive Grants—9 Grants Not Yet Renewed

California

City of San Jose, Department of Housing.—$1,346,000, "Shared Housing Assistance Placement and Supportive Services" (SHAPSS) in collaboration with the AIDS Resources Information & Services of Santa Clara County and Health. Services in-

clude: transitional housing, roommate referral service, tenant based rental subsidies and supportive services, serving 80 clients and 15 families.

Colorado

Del Norte Neighborhood Development Corporation.—$959,330, to rehabilitate a 15-bed single-room occupancy (SRO) facility in Denver. Project serves very-low income homeless persons living with AIDS, dually or triply diagnosed with substance abuse and/or mental illness issues. Services are individually tailored including group and individual counseling, transportation assistance, food bank access, HIV education, daily meals, and self-sufficiency training, which are coordinated with the Colorado AIDS Project.

Delaware

Delaware HIV Consortium.—$934,487, for the acquisition, rehabilitation and operation of a housing facility in collaboration with the Connections Community Support Programs, Inc., to develop and operate ten units of permanent housing with intensive supportive services with a primary focus on the needs of women with co-occurring substance use and/or mental health disorders.

District of Columbia

Safe Haven Outreach Ministries.—$1,286,000, to support 46 units of transitional housing for dually and multiply diagnosed homeless adults. This program will convert a public housing building, into one- and two-bedroom units. On-site substance abuse counseling, basic medical care, mental health treatment, case management, assistance with daily living and job readiness training which will stabilize 256 homeless individuals with permanent housing, while clients with former criminal justice issues will receive assists in reentry supports.

Idaho

Idaho Housing and Finance Association.—$1,299,837 for rental assistance, will provide low-income persons with long-term rental assistance in 45 units of short-term rental and utility assistance, case management, dental and psychiatric services. The project will expand the existing supportive service delivery system, assisting 384 persons living with AIDS and their families throughout the State of Idaho.

Massachusetts

Community Healthlink, Inc.—$1,236,000, to establish and operate an eight-unit residence for pregnant homeless women also challenged with substance abuse issues. Services and support will focus on preventing neonatal transmission of HIV and provide prenatal care otherwise not accessible for homeless women. This project will serve an estimated 48 persons with current needs due to homelessness, pregnancy and substance abuse and enable them to transition to more stable and independent living.

Justice Resource Institute (JRI).—$1,256,815, for tenant-based rental assistance program, with scattered-site rental subsidies to access housing for low-income and homeless individuals and families with HIV/AIDS. The program will assist 95 persons and their families.

New Hampshire

State of New Hampshire, Department of Health and Human Services, Office of Community Support and Long Term Care.—$520,448 in conjunction with three service organizations will provide housing and services to 90 persons and 35 families, and an additional 75 persons will only receive supportive services.

Pennsylvania

Asociacion de Puertorriquenos en Marcha, Inc.—$1,193,511, to continue La CASA (Community AIDS Services Advancement), a program of rental assistance, counseling and other services for clients in the Latino neighborhood of north Philadelphia, serving persons with HIV/AIDS and their families through 20 units of tenant based rental assistance, security deposits, housing counseling, case management, medical monitoring, emergency child care, and transportation within a bilingual/bicultural setting.

Remaining 2000 Competitive Awards by State

Alaska

Alaska Housing Finance Corporation.—$572,600, to provide housing and comprehensive support services to 100 households, such as case management, employment services, treatment and transportation, especially in addressing needs to ac-

cess health care in rural areas. State agencies and community-based organizations have committed over $2,000,000 in resources.

California

Salvation Army, Southern California Division.—$927,888 to support operating costs and supportive services at a 45-unit transitional and permanent housing program for families affected by HIV/AIDS. The project will adjust to changes in service needs and help maintain families as they transition to permanent housing.

County of Sacramento, Department of Human Assistance.—$1,300,142 for a collaborative of human service agencies from both the Homeless Continuum of Care and the HIV Services Continuum in Sacramento. This project will complete the continuum of care by addressing an underserved population of persons who are homeless and avoid traditional shelter programs. The City committed 120 tenant-based Section 8 permanent housing for clients who successfully complete the programs.

San Francisco Redevelopment Agency.—$1,370,000 to improve the current housing conditions for underserved homeless persons living with HIV/AIDS in the City and County of San Francisco, by assisting persons with support in getting a job or returning to work. In addition, many clients may also need support to address homelessness, mental health and substance use issues, serving 125 households with access to 10 units of service-enriched SRO housing units.

Colorado

Colorado Division of Housing.—$1,370,000 to provide rental assistance and short-term rent payments and related services in areas outside the Denver metropolitan area. Nonprofits will offer about 50 units of tenant-based rental assistance and assist 487 households with short-term rent payments to prevent homelessness. An estimated 537 individuals and their families will receive some form of housing assistance.

Georgia

City of Savannah, Bureau of Public Development.—$1,197,572 to expand on collaborations with Union Mission, Inc. and six other project sponsors with the Savannah-Chatham AIDS Continuum of Care in a one-stop service and medical center for persons living with HIV/AIDS that will streamline the intake process for housing services and expand substance abuse treatment to 20 persons receiving housing assistance.

Hawaii

Gregory House Programs.—$1,030,000 to continue the supportive housing programs and allow for a continuum of services for persons with multiple diagnoses who are living in the Honolulu metropolitan area. The project uses two housing components: 40 units of tenant-based rental assistance and operational costs for an 11-bed transitional housing facility.

Illinois

AIDS Foundation of Chicago.—$1,362,846 to direct assistance to underserved racial and ethnic minority communities that have been impacted by AIDS and poverty. The Renaissance Care Network assists an underserved population of African-Americans who reside in the greater Roseland area of Chicago. HOPWA funds will be used to lease 21 scattered site apartments and an array of supportive services relating to HIV counseling, testing, outreach, parenting, child care, substance abuse and mental health.

Kentucky

Kentucky Housing Corporation.—$1,320,000 to support more than 490 persons by establishing a substance abuse treatment network that covers all 120 Kentucky counties. The project is an expansion and renewal of the 1997 HOPWA grant in short-term housing assistance which will reach 231 homeless or low-income persons with chemical dependencies in connection with substance abuse treatment services.

Maine

The AIDS Project (TAP).—$1,333,286 to continue a program and expand services to underserved persons in rural areas in the remaining areas of the State where no HOPWA funds have previously been available. Assistance creates a range of housing options, including 63 units of tenant-based rental assistance, 39 units of emergency shelter, 42 units of short-term rent, mortgage and utility assistance as well as 192 security deposits to obtain housing.

Maryland

Health Care for Homeless (HCH), Inc.—$1,301,703 to assist an underserved population of medically fragile HIV/AIDS homeless persons in Baltimore with difficult challenges. The Project will connect housing support for 180 clients with a new level of intensive case management and comprehensive services to address the needs for the homeless or those at risk of homelessness and medically fragile.

Massachusetts

Cambridge Cares About AIDS (CCAA).—$1,326,917 to support the Bay State Supportive Housing Alliance program fill gaps in housing services through 24 units of transitional housing for 24 months to individuals and families living with HIV/AIDS across eastern Massachusetts. Eighty-two persons will be assisted with specialized substance abuse treatment efforts and related supportive services.

Mississippi

South Mississippi AIDS Task Force.—$935,500 to construct and operate Client House, an emergency shelter and transitional housing for low income and homeless people living with AIDS and their families. The facility will house 12 individuals and 2 families in Biloxi and will serve the southern six counties of the State. The project is being coordinated with the Mississippi Department of Health and 25 organizations that provide related supportive services for clients.

New York

Church Avenue Merchants Block Association, Inc. (CAMBA).—$1,080,000 to renew the multiple diagnoses initiative program Housing Start. The project provides scattered site apartments in Brooklyn for 40 low-income homeless persons living with HIV, who have mental illness or chemical addictions or both. The project will link HIV, substance abuse, mental health services, treatment education, health care, intensive independent living skills training and other supportive services with housing assistance to maximize independent living and self-determination.

Housing Works, Inc.—$707,177 to address the needs of women who are exiting the criminal justice system, with 12 units of transitional housing and a range of supportive services to reinforce behavioral changes, that will reintegrate 75 women into the community pending release or recently released from incarceration. A minimum of 20 of these women will receive support such as security deposits and moving expenses into permanent housing, linked to a full range of medical, clinical, psychosocial, case management services.

The Fortune Society.—$1,274,875 to develop Coming Home Program to meet the needs of underserved primarily African American and Latino homeless persons who are released from jails and prisons, with extensive substance abuse issues. The program will assist 125 clients with support in permanent housing, after emergency, transitional, supported permanent and independent permanent housing in addition to 12 beds for emergency and transitional housing in West Harlem that will continue as a permanent resource for the target population.

Center for Children and Families.—$1,278,906 to continue New York City's first system-wide housing assistance program for homeless HIV and multiple diagnosed minority youth from 18–24 years old in the Times Square area. An estimated 270 youth will be assisted with overnight shelter and other support. This program involves the operation of a number of specialized facilities, such as Safe Space, a 24-hour drop in center, and using two mobile units which canvass for homeless youth on the streets.

Pennsylvania

Family Health Council of Central PA, Inc.—$367,040 to establish a program that links health to housing for clients in a 14 county region of south and central Pennsylvania through eight area AIDS sponsors. These providers will deliver rental assistance support to an estimated 150 clients, especially women in rural areas of the State.

Texas

Bexar County, Department of Housing and Human Services.—$1,320,000 to target an underserved population of women with children. Twenty-eight families who are homeless or at risk of becoming homeless will be housed in an acquired and rehabilitated building that consists of eight units of transitional housing. Residents will receive treatment and family services intended to help stabilize women in housing, help address health concerns, and when able, move to permanent housing.

Vermont

Burlington Housing Authority.—$471,392 to continue a program of rental assistance and support services for residents of an 11-unit supportive housing. A wide range of supportive services is available to residents, with a combination of public and private funding.

Wyoming

Wyoming Department of Health.—$588,191 to expand services on a statewide basis through the use of a short-term rent payments program to respond to client requests. Funds will allow the State and its sponsors, the Wyoming AIDS Project and Casper Housing Authority to continue to meet supportive service needs and address short-term housing assistance of 175 low-income persons.

NATIONAL HOMELESS DATA ANALYSIS PROJECT

Question. Please provide a status report on the national homeless data analysis project, including an accounting of how the $11,000,000 will be spent, and estimated future costs of this project.

Answer. Congress has directed HUD to improve the collection of data on the extent and nature of homelessness locally and nationally. HUD has set October 2004 as the goal for each Continuum of Care (CoC) to implement a Homeless Management Information System (HMIS). HUD is providing $4.1 million in technical assistance to CoCs to help ensure they are able to meet this goal. HUD is also undertaking a $3 million 3-year effort to: (1) develop data and reporting standards; (2) develop an 80 jurisdiction national sample; and (3) collect and analyze homeless data from the sample and all CoC systems for an Annual Homeless Assessment Report (AHAR) to Congress. While implementing a HMIS is a complex, time-consuming, and costly process, CoCs have been making progress in meeting the 2004 goal. In spring 2002, 25 percent of the CoCs reported they had implemented or were upgrading or expanding their HMIS, 51 percent indicated they were selecting software and hardware, 22 percent were meeting and considering implementation, and 2 percent had not started to consider a HMIS.

Concerning the fiscal year 2003 funding targeted for additional HMIS technical assistance requirements: HUD is currently assessing the nature of community needs for HMIS technical assistance and will prepare a request for proposals in the near future.

Currently HUD does not have a reliable estimate on the total costs for CoCs to implement and operate a HMIS. In 2001, 49 dedicated HMIS projects were funded, totaling $13 million and in 2002, 83 projects totaling $25 million were funded. Nearly all of these were 3-year grants. We expect a significant number of communities to apply for funds in the 2003 competition. In addition, CoCs are using a variety of public and private sources in addition to Supportive Housing Program to fund their HMIS. We will conduct further analysis of the HMIS costs after awarding the 2003 Continuum of Care competitive grants.

FISCAL YEAR 2003 TECHNICAL ASSISTANCE FOR HOMELESS ASSISTANCE GRANT PROGRAM

Question. Please detail how the Department will spend the $6,600,000 for technical assistance appropriated to the homeless assistance grants program.

Answer. Of the $6.6 million appropriated for homeless technical assistance, $3.6 million is being made available through HUD's 2003 SuperNOFA process for technical assistance on the national level. The remaining $3 million is being distributed to HUD's field offices for award at the local level to winning technical assistance providers.

As announced in the fiscal year 2003 SuperNOFA, the $3.6 million national technical assistance funding is focused on the following 5 types of activities: (1) facilitating the exchange of information between community organizations to assist them to develop and implement a community-wide discharge plan for individuals exiting publicly funded institutions; (2) improving the ability of eligible applicants to develop and operate permanent housing for chronically homeless persons; (3) developing materials on effective grant administration for grantees and sponsors; (4) improving the ability of eligible grantees and sponsors in reaching out to and enumerating chronically homeless persons; and (5) improving the ability of grantees and sponsors in coordinating services available through mainstream resources with current housing units available for homeless persons.

TECHNICAL ASSISTANCE IN CDBG

Question. Why doesn't the Department request funds for the technical assistance (TA) in the CDBG account?

Answer. While CDBG TA has not been funded since fiscal year 1999, the President's Budget requested $7.5 million in 2000, $15 million in 2001, nothing in 2002, $3 million in 2003 and $3 million in 2004. HUD strongly believes that it needs TA to support the $4.4 billion CDBG program.

Question. What need do CDBG grant recipients have for TA?

Answer. CDBG grant recipients need TA for training in basic CDBG implementation as well as in specialized areas as local performance measurement. Instead of requiring individual grantees to develop ways to address an issue or a training program, HUD could be providing methods already proven to be successful. These funds would be provided through contracts or grants and would not be used to pay HUD staff travel or training.

In fiscal year 2004, TA would address new homeownership assistance, affordable housing, timely expenditure of funds, particularly by States, training programs for grantees staff to ensure better understanding of accountability requirements, data enhancements, faith-based community groups, energy enhancement, and meeting lead-based paint safety requirements.

In addition, some of these funds will be used to implement any revisions to the Consolidated Plan Improvement Initiative, as required by the President's Management Agenda, HUD's charge is to streamline the Consolidated Plan and make it more results-oriented and useful to communities in assessing their own progress in addressing the problems of low-income areas.

Question. Has the Department received specific requests for CDBG technical assistance?

Answer. Over the past 3 years, HUD has received a steady stream of requests from CDBG grantees for base level technical assistance (TA) because of considerable staff turnover at the local level as well as requests from stakeholders for TA to address such emerging issues as lead based paint hazards and housing and economic development issues within the colonias.

NEIGHBORHOOD NETWORKS

Question. What is the status of the Neighborhood Networks program in public housing?

Answer. In the 4 years since HUD introduced the Neighborhood Networks (NN) Centers program, the Centers' services and programs have expanded widely. Local partners, such as educational institutions and nonprofits offer tutoring, mentoring programs and other needed services. The program was developed to serve residents of public housing who often lack the skills necessary to become economically self-reliant. The Centers were designed to give these individuals an educational opportunity practically at their doorstep. Learning how to use a computer is the core of the Neighborhood Networks' philosophy because computers have become a gateway to knowledge and employment.

The NN Centers are typically located on-site or near a Public Housing facility. The Centers are equipped with computers and Internet access. They help lower-income residents reach their goals and achieve economic self-sufficiency through access of education and job training; help children become better students; provide parents and adults access to job skills; and assist senior citizens to remain independent.

Question. How many grants have been awarded? What is the average grant award amount?

Answer. Fiscal year 2002 as well as fiscal year 2003 Appropriations Acts appropriated $15 million from the Public Housing Capital Fund and $5 million from the HOPE VI program to establish or expand existing Public Housing NN Centers.

In fiscal year 2002, 78 grants were awarded to PHAs to operate centers across the country. The average award amount is $168,743. The fiscal year 2002 HOPE VI funding has not been awarded at this time, but will be by September 30, 2003. The Department anticipates the award of approximately 28 grants to HOPE VI sites.

Question. How is the Department monitoring the outcomes of the program?

Answer. For the fiscal year 2003 Notice of Funding Availability (NOFA), the Department developed a reporting requirement of performance measures and outcomes known as the Logic Model. Applicants are required to address their previous results, and present proposed program outcomes, outputs, benchmarks, and performance indicators. If the applicant is a successful awardee, then the applicant is required to report semi-annual against their work plan the achievement of these performance measures.

COMMUNITIES SERVED UNDER BROWNFIELDS

Question. How many communities have been served over the life of the Brownfields program? What activities does the HUD Brownfields program fund that are not eligible under the EPA Brownfields program?

Answer. Since 1998, HUD has awarded 108 Brownfields Economic Development Initiative (BEDI) grants to 85 communities. In some cases, additional communities may be served through those applications, such as when a county receives a BEDI grant for the redevelopment of multiple sites in a number of communities within the county.

The 2002 Small Business Liability Relief and Brownfields Revitalization Act expanded the funding that EPA can provide to support the assessment and cleanup of brownfields properties. The authorities granted to EPA under the new law, however, are limited to property characterization, assessment, and cleanup. The law permits recipients of EPA's grants or loans to use funds to conduct planning but only when associated with property assessment and cleanup. In addition, the law permits a recipient of an EPA grant or loan to purchase insurance, but again, only for activities associated with the characterization, assessment or remediation of a brownfields site. EPA has given out approximately 400 grants, and their funds can be used for site beautification projects, known as greenspace.

HUD's objective regarding brownfields is to assist projects whose focus is the end of the redevelopment process, i.e., projects with plans by identified parties that will return contaminated sites to productive economic use, as differentiated from assessment and cleanup which are the beginning phases of the overall redevelopment process.

Because BEDI grants may currently be used only in conjunction with Section 108 guaranteed loans, BEDI may support any activities eligible for assistance under the Section 108 Loan Guarantee program, provided those activities are undertaken in connection with the redevelopment of a brownfields site. Communities may seek BEDI assistance for a wide range of redevelopment activities, including the acquisition, demolition, clearance or preparation of a brownfields site; installation of infrastructure; construction or rehabilitation of housing, commercial or industrial buildings; business loans and job training to attract or expand businesses; and the establishment of public facilities such as child care and community centers (the full scope of eligible activities that may be supported with BEDI funds is provided at 24 CFR §570.703).

The Department did not request funding for the Brownfields Economic Development Initiative in fiscal year 2004, but the Department will continue to support the redevelopment of brownfields through the Community Development Block Grants program.

The following table depicts the activities eligible under the respective EPA and HUD authorizing legislation:

Activity	EPA	HUD
Assessment	Yes	Yes.
Remediation	Yes	Yes.
Acquisition	No	Yes.
Construction and Rehabilitation	No	Yes.
Business Attraction or Expansion	No	Yes.
Housing	No	Yes.
Clearance and Demolition	Only If Integral to Remediation	Yes.
Public Facilities	Only If Integral to Remediation	Yes.

Although BEDI may also finance site characterization, assessment and remediation activities, between 2000–2002, just 9.1 percent of funds provided by BEDI grants and associated Section 108-guaranteed loans were used for this purpose. Indeed, BEDI grantees have demonstrated considerable success in accessing EPA resources for site characterization, assessment and remediation, with nearly 82 percent of BEDI funds allocated to sites that have received EPA brownfields assistance for the early phases of redevelopment.

HANF FUNDING PROPOSAL

Question. The new funding method adopted in the fiscal year 2003 appropriations bill will mean that local agencies will have to draw funds from their reserves, and possibly from the new central fund, in order to have sufficient money to pay rent to owners when additional families succeed in locating units. This could require fairly quick action by HUD. If owners do not receive timely payments, they are unlikely

to agree to participate in the program. What will HUD do to ensure that housing agencies can access the necessary funds quickly, so that owners can be paid on time?

Answer. HUD has implemented a data collection tool that requires PHAs to submit updates to leasing and cost activities quarterly. This current data will be used as the basis to fund expiring contracts on a quarterly basis and provide PHAs with the appropriate level of funding.

There will be times when a PHA must use reserves and/or require additional funding from the Central Reserve. HUD is well aware of the importance of providing this funding to PHAs in a timely manner and is prepared to do so. HUD also has the responsibility to ensure that the funding required, up to the authorized level, is made available to PHAs within 30 days of a request. HUD has developed a PIH Notice that outlines procedures for PHAs to request access to reserves and/or additional funding. The notice is going through an internal clearance process and should be issued in the very near future.

Question. Is HUD planning to issue guidance to housing agencies explaining the new funding method adopted for fiscal year 2003? If so, when do you anticipate the guidance will be issued?

Answer. HUD notified all PHAs by letter and e-mail of the changes in the funding methodology resulting from the fiscal year 2003 appropriations and requirements of PHAs. HUD has also developed an implementation notice that outlines the changes in more detail. The notice is in internal clearance and should be issued in the very near future.

UNUSED BUDGET AUTHORITY

Question. For housing agencies with fiscal years ending 6/30/02, 9/30/02 and 12/30/02, what percentage of total allocated budget authority was used, and what was the dollar amount of unused budget authority?

Answer. See table below.

	2003	2006	2009	2012	Total
Table allocated BA used (percent)	89.7	95.6	96.3	92.1	94.0
Unused BA	$149,506,470	$287,272,551	$107,281,709	$149,018,101	$693,089,101

HOUSING ASSISTANCE FOR NEEDY FAMILIES

Question. Does HUD anticipate recapturing the full amount of unused BA before the end of fiscal year 2003? If not, why not?

Answer. The recapture process in August 2003 will recapture all unused budget authority from fiscal year 2002 and prior appropriations that have accrued to PHAs' program reserves. However, a month reserve amount for all PHAs will be excluded from recapture. In addition, funds provided to Moving-to-Work agencies units under litigation and certain special fees intended for future years will also be excluded from recaptures. Funds provided to Moving-to-Work agencies are excluded from recaptures pursuant to the legal agreement between HUD and the agencies involved.

RESERVES

Question. How much of the BA recaptured during fiscal year 2003 will be needed to replenish PHA reserves?

Answer. PHA program reserves are replenished at the end of each PHA fiscal year. The fiscal year 2003 appropriation allows for the replenishment of reserves up to the authorized level of units due to increased costs from the Central Fund.

The estimate to replenish reserves, based on the cost per unit currently provided by PHAs, is approximately $200 million.

VOUCHER UTILIZATION

Question. What steps is HUD planning to take this year to continue to encourage PHAs to increase the percentage of vouchers they are using?

Answer. The Department proposes the Housing Assistance for Needy Families (HANF) initiative as a means to reform and improve the voucher program. HANF will provide tenant-based housing assistance through State-administered block grants. This initiative will simplify current income and rent calculations by eliminating dozens of statutory and regulatory exemptions and deductions. Implementation of HANF will:

—provide for the program flexibility and oversight so that funds are used promptly and effectively to assist needy families;

—facilitate greater program responsiveness to local markets and needs;
—provide for the administrative decision-making closer to the communities and families affected, by their elected officials;
—provide for additional program flexibility to address local needs;
—allow flexibility at the State level for reallocation of funds or other actions that may be necessary so that program funds are expended promptly; and
—improve government support of self-sufficiency efforts by assisted families, by facilitating greater coordination with the TANF program and other State programs.

Question. Is HUD continuing to notify agencies that fail to use at least 90 percent of their vouchers (or budget authority) that if they do not improve substantially HUD will reallocate some of their vouchers to another agency?

Answer. The Department is reviewing procedures related to the reallocation of vouchers and will determine if reallocation will be conducted this summer. However, budget reform made by Congress in fiscal year 2003 may negate the necessity to do so.

Question. Has HUD reduced the number of vouchers allocated to any agencies due to poor performance during this fiscal year? If so, please provide details on the agencies and number of vouchers affected. Have these vouchers been reallocated to other agencies?

Answer. HUD has not reallocated vouchers from under-performing agencies in fiscal year 2003.

STUDY ON VOUCHER UTILIZATION

Question. HUD has commissioned a study on how high-performing agencies have improved voucher utilization that the study contains more recent data on voucher utilization than HUD has provided to Congress, and that it has been ready to be issued for 6 months. When this study will be made public? Please provide the Committee with a copy of the study.

Answer. The report is being finalized now and should be sent to the printer in the next few weeks.

VOUCHER UTILIZATION

Question. HUD's budget request assumes that the average cost of vouchers in fiscal year 2004 will be $6,468, including administrative fees, yet the average cost of the requested incremental vouchers is $6,545. Please explain the discrepancy. The Congressional Budget Office in its March baseline estimates that the average cost of vouchers in fiscal year 2004 will be $6,842. Please explain the discrepancy between the administration's estimate and CBO's.

Answer. In fiscal year 2004, up to $36 million are requested for non-elderly disabled vouchers as a set-aside that might result in approximately 5,500 units depending on the region or area where they will be utilized. There is a cap on the funding of $36 million that can be used for the non-elderly disabled vouchers. However, there is no floor or ceiling on the number of units that can be awarded from the amount set-aside for this purpose. The estimate of 5,500 units is just an estimate to provide some context and should not be viewed as an absolute final number. It should not be used to calculate a per unit cost of $6,545. The dollar amount is the only limiting factor for non-elderly voucher set-aside. The average per unit cost of $6,648 was calculated based on the PHA's latest year-end financial statements and the actual cost of approximately 2 million units was taken into consideration. In addition, the local and regional inflation factor was used to project cost for fiscal year 2004.

The Department does not know the assumptions used by CBO to calculate the PUC, therefore, we are unable to address the discrepancy between HUD & CBO.

Question. In HUD's budget justifications, page A–16, the administration says it is requesting renewal funding for 1,935,649 vouchers. This is only 90.9 percent of the 2,130,000 vouchers that require renewal in fiscal year 2004. Using the administration's cost estimate of $6,468 per voucher and including the central fund, approximately 94.7 percent of vouchers can be supported by the total budget request of $13.047 billion for voucher renewals. Yet HUD's Fiscal Year 2002 Performance and Accountability Report states that voucher utilization reached 94 percent that year, and the Budget Justifications submitted by HUD to Congress in February 2003 indicate that HUD anticipates continued improvement in voucher utilization, to 95 percent and 96 percent respectively, in fiscal years 2003 and 2004. Can you explain these discrepancies?

Answer. The 2.1 million vouchers identified represent the entire inventory of authorized vouchers projected in fiscal year 2004. Not all vouchers in the inventory

require renewal funding in fiscal year 2004 because existing budget authority exists as a result of a long-term contract, or new budget authority is available for vouchers awarded for tenant protection actions and/or incremental vouchers. Further, a 1-month reserve will be available to PHAs to cover increases in cost or lease up to the authorized level.

The renewal estimate provided in the budget is based on a leasing level of approximately 96 percent, and includes funding requirements for increased costs and additional leasing. This leasing level is consistent with leasing projected in the fiscal year 2002 Performance and Accountability Report.

Question. Of the total requested appropriation of $13.607 billion for HANF, some $12.535 billion represents new budget authority. The remaining $1.072 billion is assumed to be carried over from recaptures of voucher appropriations from prior years. Based on the most current information available, what is HUD's current expectation of the amount of carry-over funds that will be available in fiscal year 2003?

Answer. The only amounts expected to carryover are $1.072 billion, which is already assumed in the fiscal year 2004 Budget. All other funds are expected to be committed for specific purposes or used to meet the fiscal year 2003 rescission.

SEVERELY DISTRESSED PUBLIC HOUSING

Question. Please detail how the Department is complying with Senate direction to "submit a report by June 15, 2003, on the number and location of severely distressed public housing units that are in need of substantial revitalization or demolition"?

Answer. At this time, the Department does not have a mechanism to review the entire public housing inventory and determine how many units are severely distressed. Even the National Commission on Severely Distressed Public Housing acknowledged the difficulty in identifying specifically distressed projects and opted to estimate the total number nationwide rather than do an inventory. Furthermore, a standard definition of severe distress needs to be agreed upon prior to an evaluation of the entire inventory. HUD has to work with 5 different definitions as provided in Sections 18, 24, and 202 of the 1937 U.S. Housing Act, the HOPE VI appropriations and the Commission of Severely Distressed Public Housing. The Department is currently working with the Urban Institute to assess, among other things, the various definitions and establish one standard that can be used Department-wide.

HOPE VI

Question. During the fiscal year 2004 budget hearing, Secretary Martinez indicated that the Department would be convening an "internal work group" on HOPE VI, to consider reauthorization. Please provide a status report on this work group.

Answer. The Department is coordinating the Public Housing and Community Development Resources Review Initiative. As part of this initiative, the Department is convening experts who will provide input on the type of revitalization program that is needed given the current public housing stock and 10 years of lessons learned from HOPE VI and other affordable housing programs.

The HOPE VI Review Initiative convened on May 28 and June 12, 2003. A final meeting is scheduled for June 19, 2003. In addition, HUD officials will continue to draw on information from a wide variety of sources.

The Department also contracted with the Urban Institute to write a lessons learned report on HOPE VI and the revitalization of distressed public housing. This report will be used along with the information collected from the HOPE VI Review Initiative and other sources to examine alternative methods of public housing revitalization.

INTERACTIVE WEB-BASED LEAD DATABASE

Question. This Subcommittee provided $3.5 million in fiscal year 2002 for the development of an interactive, web-based lead database that utilizes "real time" information and mapping capabilities to provide local, State, and Federal Government officials, public and private organizations, health care providers and families with easy access to childhood lead poisoning prevention data and educational information, and to facilitate multi-disciplinary collaboration to further childhood lead poisoning prevention efforts. The Committee is aware of, and delighted with HUD's goal of having the Lead-Safe Homes data system fully operational by February 2004. In light of additional funding provided for abatement of lead in homes, how do you plan to expand the current pilot program from three cities to a nationwide interactive web-based database so their abatement funds are used most efficiently?

Answer. HUD believes this database will help local jurisdictions target their resources to those areas in greatest need. The data are most helpful if they are provided at the level of the individual housing unit and not restricted to only the block or census tract level. In Boston and Chicago, unit-specific data have been provided, although in Baltimore, unit-level data have been restricted, reportedly due to local authorities' concerns about confidentiality of medical records. The Fiscal Year 2003 Appropriations Act provides that the lead hazard reduction demonstration program funds can be used for inspections, risk assessments, interim controls, abatement, and temporary relocation of families during the hazard control work. Since explicit language was not provided in the Act, expansion of the database may not be an eligible expense for grantees under this program. For the existing lead hazard control grant program, the cost of database development is an eligible expense and HUD will develop incentives to encourage its grantees to enter their data into this system. Additional resources could also be provided through the use of local matching funds.

Question. Do you see expansion as a slow process, adopting information from a limited number of cities at a time? Do you envision rapid expansion once you feel the system is capable of handling data from numerous cities around the county?

Answer. Because the development costs associated with the pilots have already been covered, we can achieve significant economies of scale by expanding the project to other cities. Once the database for the pilot cities is released and fully operational, HUD expects that jurisdictions will recognize its value in short order. Several other jurisdictions have expressed interest, such as Philadelphia, Milwaukee, Providence, and the States of Maryland and Massachusetts. The expansion of the database is likely to proceed most rapidly in those communities at highest risk. However, the expansion of the database is likely to be slower if it is dependent on the resources of State and local governments, given their current financial status. Rapid expansion could be facilitated by additional appropriations for those communities at greatest risk.

INTERAGENCY INVESTMENT IN CHILDHOOD LEAD POISONING REDUCTION

Question. How does HUD plan to accomplish interagency investment in ending childhood lead poisoning by 2010?

Answer. At the Federal level, the President's Task Force on Environmental Health and Safety Risks to Children coordinates all lead-based paint activity among the different agencies. On April 18, 2003 the President signed an Executive Order extending the Task Force for 2 years. HUD also serves on the CDC Childhood Lead Poisoning Prevention Advisory Committee as an ex-officio member. At the State and local level, HUD has been encouraging the creation of strategic plans to eliminate childhood lead poisoning by 2010. Such plans are under development in: Detroit; Philadelphia; Rochester, NY; Milwaukee; and the State of Rhode Island. "Summit conferences" to develop such local plans either have been or will be held shortly in Cleveland and Chicago. Both HUD and the Centers for Disease Control and Prevention are requiring their respective grantees to develop local plans to achieve the 2010 goal.

Question. What other agencies does HUD envision partnering with to fulfill the goal of eradicating childhood lead poisoning?

Answer. Partnering agencies include, but are not limited to, the following: Centers for Disease Control and Prevention, Environmental Protection Agency, Office of Management and Budget, Departments of Justice, Energy (weatherization), Agriculture (rural housing), Defense, Treasury, National Institute of Environmental Health Sciences, Center for Medicaid and Medicare Services, Office of the Public Health Service, and the Consumer Product Safety Commission.

QUESTIONS SUBMITTED BY SENATOR PATRICK J. LEAHY

HOMELESS FUNDS IN BURLINGTON

Question. Mr. Secretary, I want to raise a concern I have with the Continuum of Care program that I hope you can address. It has come to my attention that several years ago the Department made a significant change in the way it evaluates these grants which has dramatically impacted one of Vermont's neediest communities.

In 1997 the Department began using the Community Development Block Grant (CDBG) formula to establish a level of "Pro-Rata" need—a base level of funding for each community. Before this time Burlington, and the Chittenden County Continuum of Care, often received over $1 million to run a variety of homeless programs. The need was great and the programs were widely praised—receiving Best Practices Awards from the U.S. Conference of Mayors and from HUD.

Based on the new formula Burlington's pro rata need was estimated at a fraction of what the funds they had been receiving—and HUD awarded more points to projects that fell within that arbitrary number. The result was a drastic decline in the number of projects that were funded and in the total amount of money they received—from $1.6 million in 1996 to $350,000 in 2002. The result has been a slow but painful erosion of their system of care in the county. This happened at time when the area was seeing a 400 percent increase in the number of families seeking assistance.

My question to you is this: Can HUD show any data, or have you collected any information, that demonstrates a link between community development needs, as evaluated by the CDBG formula, and the homeless needs in each individual community?

Answer. Prior to 1994, HUD did not have an objective measure to assess the need for competitive homeless program assistance, a statutory selection factor. Individual projects were asked to provide narratives about the particular homeless sub-population they intended to serve in their community. As a result, there was no ability for HUD to assess the need for homeless assistance of one community relative to another. At the same time, a significant number of communities began submitting applications, making this relative determination of need even more difficult. For instance, prior to 1994, fewer than 1,000 projects were submitted to HUD annually for competitive funding. In 1994, 2,655 applications were received.

Beginning in 1994, HUD instituted its pro rata need approach to provide a more objective and fair measure of need. HUD examined Census and other data on homelessness to determine how need would be measured. As there were no readily available and reliable direct measures of homeless need, HUD turned to the Congress for direction. In creating the Stewart B. McKinney Homeless Act of 1987, Congress stipulated that HUD's only homeless assistance formula program, Emergency Shelter Grants, be allocated using the factors contained in the Community Development Block Grant (CDBG) program. The CDBG factors prescribed by Congress are: population, poverty, housing overcrowding, growth lag and age of housing. Given this direction from Congress and no other readily useable measures of homeless need, HUD uses the CDBG factors in determining pro rata need in Continuum of Care competition.

In 2001, Congress directed HUD to review the pro rata need approach used for HUD's competitive homeless assistance programs. In April 2001, HUD sponsored a conference on this subject and invited representatives from numerous national organizations; Federal, State and local officials, including Congressional staff; homeless providers; homeless advocates and academics. At the conclusion of the conference, there was overall agreement that the current approach which utilizes the only current available data for determining need for McKinney-Vento funding was working well. This approach will be improved prospectively as we receive national HMIS data in fiscal year 2005.

Question. Is HUD currently collecting information and data about homeless populations in order to determine how best to approach these complex problems or how best to allocate funds?

Answer. With direction from Congress, HUD is working to improve the collection of data on the extent and nature of homelessness locally and nationally. HUD has set October 2004 a goal for each Continuum of Care to implement a Homeless Management Information Systems (HMIS). HUD is providing financial and technical assistance to Continuums to meet this goal.

It is noteworthy that the State of Vermont and the Chittenden County Continuums are collaborating on a State-wide HMIS. It is our understanding that planning and implementation of this system are on course for meeting the 2004 national implementation goal. In fact, the State of Vermont has been a leader in suggesting innovative proposals for enhancing the HMIS initiative. These efforts will contribute to better understanding homelessness and how to address it.

Question. Secondly, have you heard from other rural States, such as Vermont, that are facing similar problems with their funding formula, and has the Department ever considered the need for a small State minimum in this program?

Answer. There are two key provisions in pro rata need to help ensure communities can more fully address their local homeless needs.

The first protects communities that have existing HUD-funded projects. HUD assures that if the cost of operating such projects for 1 year exceeds the community's pro rata need amount, HUD will provide an upward adjustment to that amount to ensure that all such projects can fully operate.

The second provision allows each community to receive additional funding by requesting as its number one priority, a new permanent housing project. This provision has been in place for a number of years. Unfortunately, Chittenden County has

consistently declined to request this bonus funding. Had they requested a fundable project in 2002, the continuum's pro rata need would have doubled from $226,000 to $452,000. We are hopeful that the continuum will fully exercise its options in 2003.

The State of Vermont, which administers a Continuum of Care system covering the remainder of the State, receives significant assistance through HUD's Continuum of Care process. For instance in December 2002, the State's Continuum was awarded over $1.2 million in homeless assistance. As a result, the combined Continuum of Care funding award amount in 2002 for Vermont was approximately $1.4 million.

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

PUBLIC HOUSING OPERATING FUND

Question. The U.S. Department of Housing and Urban Development recently revealed a $250 million funding shortfall in the Public Housing Operating Fund for Fiscal Year 2002. The January 18, 2003, edition of the *National Journal* cites a Housing and Urban Development official saying that an internal problem with HUD's system for estimating costs had led to the shortfall.

Yet, despite the Department's admission that the funding shortfall is a result of their own error, the Department has refused to request additional funding in fiscal year 2004 to rectify the situation. Instead, the Department of Housing and Urban Development has significantly reduced subsidies to public housing authorities, threatening the housing of the nearly 3 million people who currently occupy public housing.

Why, specifically, is the Department of Housing and Urban Development experiencing a funding shortfall?

Answer. In 2001, HUD changed its funding formula, in part to redirect some funding from large to small PHAs. At the time, however, HUD did not change its reporting and accounting systems to support this change. This failure led to inadvisable management practices. For example, HUD used 1999 data for 2001 funding due to an inability to access 2000 data.

Unfortunately, the previous system made it difficult to forecast future funding streams correctly and to set percentage funding levels responsibly, resulting in some years in significant funding shortfalls. For example, in 1998 (a 100 percent funding year), there was a $102 million shortfall, leading to a 92.5 percent funding level the next year. In short, poor accounting systems and practices led, in some years, to the setting of inappropriately high funding percentages, which in turn led to funding shortfalls.

Over the past decade, HUD's practice at the operational level has been to automatically dip into future years' appropriations to compensate for any shortfalls. This is an unacceptable and irresponsible practice, which had apparently been going on for some years without the knowledge HUD's senior management or Congress. Upon senior management's discovery and confirmation of the problem, HUD took action to inform the appropriations and authorizing committees of both House and Senate of the practice and the resulting $250 million shortfall.

Question. Why is the administration not requesting additional funding to cover this shortfall, thus, choosing to make the residents of public housing suffer for the Department's mistake?

Answer. When the Department discovered the $250 million funding shortfall in the Public Housing Operating Fund for fiscal year 2002, it did have many conversations and meetings with all appropriate parties. One of the outcomes of these discussions was the inclusion of language in the 2003 Appropriations Act, which provided the Department with $250 million to cover the funding shortfall in the Public Housing Operating Fund. While the remaining 2003 funding will not cover 100 percent of the eligibility needs for the public housing industry, historically the Department has funded PHAs at less than 100 percent, including a funding level of 89 percent in 1996. PHAs should be able to accommodate this level of funding through efficiencies and economies in their operations and, where needed, by utilizing reserves and other funding sources available to them.

Question. What specific actions is HUD undertaking to ensure such a shortfall does not occur again?

Answer. The Department has taken the following actions to ensure that a shortfall does not occur again in this program. Specifically, the Department has:

—implemented a new interim Operating Subsidy system that will enable HUD to provide more timely and accurate funding to PHAs;

—enhanced its internal controls and managerial reporting system; and
—put in place new managerial staff and have added support staff to ensure that appropriations enacted in 2003 and beyond for this program are managed in a responsible manner.

Question. Since HUD has announced an intended funding cut in the operating subsidies provided to public housing authorities, I have received letters from numerous constituents expressing concern about this proposal and outlining the ways it would adversely effect the residents of public housing in West Virginia. Public housing authorities will have to postpone maintenance and renovation of apartments, eliminate many tenant services, and possibly closing housing units.

What do you believe the repercussion to public housing will be by reducing the operating fund subsidy to public housing as HUD intends?

Answer. HUD did not intend that the funding level of 70 percent announced in Notice 2003–1 would be the final level. After Congressional action was completed on HUD's fiscal year 2003 appropriations, HUD did provide full funding to PHAs for their fiscal year 2002 subsidy eligibility and is now funding fiscal year 2003 eligibility at 90 percent.

Question. What level of funding is required in fiscal year 2004 to ensure that public housing authorities are not financially penalized for HUD's mistake?

Answer. In fiscal year 2002, the Department experienced a $250 million funding shortfall in this program. The shortfall occurred because of system and business process problems that prevented the Department from timely tracking and accounting for PHA eligibility and program funds. To cover the shortfall, Congress provided funds in the fiscal year 2003 Appropriations Act. To ensure that shortfalls do not occur again and to address issues with the accounting systems, the Department has enhanced its internal controls, management oversight, and business procedures for this program. These enhancements will ensure the proper and timely accounting of PHA eligibility and funds administration.

For fiscal year 2004, the administration requested $3.574 billion. This amount should fully satisfy fiscal year 2004 operating subsidy requirements. No portion of the request will be used for prior fiscal year shortfalls.

EMPOWERMENT ZONES

Question. In 1999, Huntington, West Virginia, and Ironton, Ohio, were together designated a Round II urban Empowerment Zone. This program is encouraging significant economic development in the designated region.

In President Bush's budget proposal for fiscal year 2004, the success of the Empowerment Zone program is recognized and abundantly praised. In fact, the budget states:

"The Empowerment Zone initiative helps revitalize city neighborhoods by attracting business development and providing employment opportunities to residents of empowerment zones. Empowerment Zone principles include a strategic vision for change, a community-based partnership, providing economic opportunity and sustainable community development."

The budget continues:

"E[mpowerment] Z[one]s are helping to stimulate billions of dollars in private investment, reviving inner city neighborhoods and supporting jobs, and helping families move from welfare to work."

Yet, the President's budget provides no funding for this program.

Why is there no funding provided in the President's budget for Empowerment Zones, when the administration has nothing but commendation for the program?

Answer. The administration is very supportive of the Empowerment Zone program. Accordingly, HUD is sponsoring three workshops across America in Jacksonville, FL; Memphis, TN; and Tucson, AZ to train local leaders on how to let businesses know about the $22 billion in Federal tax incentives available to them. Empowerment Zones have over $6 billion in incentives targeted towards them. This is far more than the limited grant funds that Congress has appropriated to local leaders in the past. It delivers funds directly into businesses' hands without passing through State and local governments. Round II EZs will continue to have access to their cumulatively appropriated funds of $360 million.

Additional funding was not recommended for two reasons. First, there are HUD and Congressional concerns regarding the slow expenditure of previously appropriated funds. As of January 31, 2003, $212 million in funds remained unspent and an additional $30 million in fiscal year 2003 funds had yet to be allocated. As the

program entered its sixth year, 63 percent of the funds remain unused. Second, there is a higher priority assigned to the multi-billion tax credits that are available.

SUBCOMMITTEE RECESS

Secretary MARTINEZ. Mr. Chairman, I appreciate the opportunity to meet with you to discuss the hiring issue. We know that is important to you.

Senator BOND. And we have lots of things, as we indicated. We appreciate your willingness to work on these legislative proposals. As you noted, we do have some questions about them and some skepticism on a few of them, but we know that there is lots of progress being made.

Well, thanks to you and all who participated, and we will recess the hearing. Thank you, sir.

[Whereupon, at 11:36 a.m., Thursday, March 6, the subcommittee was recessed, to reconvene subject to the call of the Chair.]